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FINANCIAL TIMES

Unilever
Changing faces in soap opera
Page 13

India
Shifts in the power structure
Survey, Separate Section

N. Ireland
Peace in the balance
Pages 9 and 12

TOMORROW'S
Weekend FT
High drama of the science laboratory

World Business Newspaper FRIDAY NOVEMBER 17 1995 D8523A

French unions call strikes in protest at welfare reforms

France's central and commercial banks were quick to salute the Juppé government's welfare reforms with interest rates cuts, but two big union federations have called protest strikes for later this month. Prime Minister Alain Juppé's bold welfare spending cuts and increases in charges, aimed at bringing the social security deficit from FFr64bn ($13bn) this year into surplus in 1997, drew praise from his party and surprised political opponents. Page 14, French strike call overshadows rate cut, Page 2, Editorial Comment, Page 13

Doubts arise over Clinton visit to Ireland

A summit meeting of the British and Irish prime ministers may be held next week ahead of a planned visit to the region by President Bill Clinton (left) at the end of the month. Diplomats in London and Washington said difficulties over the US budget might force a curtailment of Clinton's trip to London, Belfast, Londonderry and Dublin, but that strenuous efforts would be made to avoid its cancellation. No final decision on the visit is expected before the middle of next week. Page 9, The fragile facade, Page 12

Russian PM offers media finance benefits: Victor Chernomyrdin, Russia's prime minister, promised the media a range of financial benefits, including substantial tax-breaks, raising concerns about the relationship between government and the press in the run-up to next month's parliamentary elections. Page 3

China hails US initiative over WTO: China hailed a US diplomatic initiative aimed at resolving the impasse over Beijing's entry to the World Trade Organisation. Page 14; Seeking to smooth the ruffled feathers, Page 6

EU social alliance under strain: The alliance between Europe's trade unions and employers which helped influence the Maastricht Treaty four years ago, appears to be under severe strain over the European Union's intergovernmental conference next year. Page 3

Companies raided in plastics prices probe: European Commission officials have raided the offices of 20 petrochemical companies as part of their investigation into claims of anti-competitive collusion to push up plastics prices. Page 2

Lord Young sets C&W retirement date: Lord Young of Graffham, chairman of Cable and Wireless since 1991, said he intended to retire from his role at the head of the UK-based telecommunications group in February 1997.

German shipbuilder warns of loss: Bremer Vulkan, the troubled German shipbuilder, appointed an interim chairman to replace Friedrich Hennemann and warned of losses for 1995 of about DM200m ($143.8m). Page 15

Bangkok offers investors cash lifeline: The Thai government caved in to pressure from local stock market speculators and pledged $1.2bn in government funds to bail out investors squeezed by a slide in Bangkok share prices. Page 14, World Stocks, Page 38

Agfa buys Hoechst print unit: Agfa-Gevaert, the photographic subsidiary of chemical group Bayer, is to take over the printing plates business of Hoechst for DM700m ($497m), in a move to strengthen the subsidiary. Page 16

Neste offer raises $238m: Neste, Finland's biggest industrial group by sales, said its initial public offering had raised more than FM1bn ($238m), in spite of lacklustre demand from retail investors. Page 16

US attorney general has Parkinson's: US attorney general Janet Reno, 57, has been diagnosed with Parkinson's disease, a degenerative illness that causes trembling and muscular rigidity. She intends to remain in her job as the nation's top legal officer in President Clinton's cabinet.

German TV looks to Hollywood: Germany's rival commercial television networks, already locked in a battle for market share and advertising revenue, are buying more US film productions to attract the younger generation. Page 2

French auctioneers to lose stranglehold: The historic stranglehold of France's 460 auctioneers is set to be broken within the next two years, under radical new proposals outlined by the minister of justice, Jacques Toubon. Page 2

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	4861.77	(+39.02)
NASDAQ Composite	1047.86	(+8.01)
Europe and Far East		
CAC40	1905.14	(+29.90)
DAX	2200.72	(+14.55)
FT-SE 100	3610.8	(+39.4)
Nikkei	17,938.52	(+256.78)

■ US LUNCHTIME RATES

Federal Funds	5½%
3-mth Treas Bills: Yld	5.493%
Long Bond	108½
Yield	6.607%

■ OTHER RATES

UK: 3-mo Interbank	6⅝%	(6½%)
UK: 10 yr Gilt	105⅜	(104½)
France: 10 yr OAT	105.46	(105.32)
Germany: 10 yr Bund	101.30	(101.39)
Japan: 10 yr JGB	112.777	(113.423)

■ NORTH SEA OIL (Argus)

Brent 15-day (Jan)	$16.60	(16.455)

■ GOLD

New York: Comex		
(Dec)	$386.2	(385.6)
London:		
close	$385.0	(385.9)

■ DOLLAR

New York: lunchtime		
£	1.557	
DM	1.41025	
FFr	4.86225	
SFr	1.1405	
Y	102.20	
London:		
£	1.5563	(1.5579)
DM	1.4095	(1.4024)
FFr	4.8588	(4.8435)
SFr	1.1412	(1.1345)
Y	102.22	(101.035)

■ STERLING

DM	2.1935	(2.1847)
Tokyo close:	Y 101.75	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$30	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lw110.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	Sk60
Cyprus	C£1 10	India	Rs75	Norway	NKr16.00	S. Africa	R12.00
Czech Rp	Kc55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta250
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 4.20	Syria	S£50.00
Finland	FM15	Kuwait	Fils625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr11.00	Lebanon	US$1.50			Turkey	L80,000
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00

German opposition leader ousted

SPD moves to left as Scharping loses ballot gamble to Lafontaine

By Peter Norman in Mannheim

Germany's opposition Social Democratic party took a sudden turn to the left yesterday when Mr Rudolf Scharping invited Mr Oskar Lafontaine to challenge him for the leadership – and lost.

The dramatic change at the top of Germany's largest party followed Mr Scharping's failure to inspire an SPD congress with a lacklustre keynote speech. It failed to quell delegates' frustration and anger at the quarrelling that had brought the party so low.

But his defeat sent a charge through the delegates, who were surprised to be presented with a choice. Mr Lafontaine, prime minister of the state of Saarland, had not emerged as a challenger for the post of party chairman until early yesterday.

On Wednesday, Mr Lafontaine had brought the congress cheering to its feet with an impassioned address that emphasised the party's duty to fight for peace abroad and against unemployment at home. His task now is to unite the party and defeat the centre-right coalition government of Chancellor Helmut Kohl at the next German election, scheduled for 1998.

The euphoria that greeted Mr Lafontaine's rhetorical tour de force was in marked contrast to the respectful applause Mr Scharping earned for his introspective address that focused on the recent problems of the party and his own inadequacies.

Speculation that Mr Lafontaine would stand for the post of chairman mounted through the night after his speech, as his supporters mobilised backing for him among delegates.

But it was 47-year-old Mr Scharping who set in motion the vote that has almost certainly dashed his hopes of standing as the SPD's candidate for the chancellorship in the next general election.

He told delegates the party needed "clarity on personnel issues" and he had asked Mr Lafontaine if he wanted to be a candidate for the chairmanship. Mr Lafontaine took up the challenge, turning what would have been a walk-over for Mr Scharping into a two-horse race.

Mr Lafontaine gained 321 votes against 190 for Mr Scharping. There were two abstentions among the 513 valid votes cast at the congress in Mannheim, in central Germany.

Immediately after the vote, Mr Lafontaine appealed for the support of all in the party. He received instant backing from Mr Scharping, who called on all party members to give their "unlimited" support to the new chairman.

Ironically, Mr Scharping was then given a rousing standing ovation as Mr Lafontaine expressed his appreciation for his work as party chairman. The congress then voted to make the *defeated leader* one of the SPD's five deputy chairpersons with the overwhelming support of 462 of 517 votes cast.

Mr Lafontaine later praised Mr Scharping's decision to let him stand as "a great human gesture and a signal for co-operation".

Mr Lafontaine is 52 and was the SPD's unsuccessful candidate for the chancellorship in 1990. He comes from the left of the party, but, yesterday, in a demonstration of his wish to unite the SPD, he called on *delegates to vote* Mr Gerhard Schröder, the right-of-centre prime minister of Lower Saxony, into the party's 45-strong managing board. However, Mr Schröder failed to win sufficient votes in the first round of polling.

Lafontaine dazzles unhappy delegates, Page 2
Editorial Comment, Page 13

Oskar Lafontaine: his task now is to unite the party and defeat Chancellor Helmut Kohl's centre-right coalition at the next election Picture: AP

Roh held on bribes charges as scandal widens

By John Burton in Seoul

Mr Roh Tae-woo, the former South Korean president, was arrested yesterday on charges of corruption as prosecutors implicated the chairmen of Daewoo and Dong-ah, two of the country's biggest corporate groups, in the scandal.

Mr Roh, who had been held by prosecutors for more than 27 hours, was immediately taken to Seoul's main detention centre following his arrest. He is the first Korean head of state to be held in detention while facing criminal charges.

He confessed last month he had amassed a $650m slush fund from business donations during his 1988-93 presidency after prosecutors started investigating bribery allegations. The scandal has revealed extensive corrupt links between Korean business and government.

Prosecutors claimed Mr Roh took Won236bn ($307m) in bribes from 30 businessmen. But they named only Mr Kim Woo-choong, Daewoo chairman, and Mr Choi Won-suk, chairman of the Dong-ah construction group, in their arrest warrant for Mr Roh.

Mr Kim is alleged to have paid Mr Roh a total of Won24bn in bribes to secure government contracts, including the construction of a submarine base in 1991. Daewoo is Korea's fourth largest conglomerate, with businesses in construction, cars, electronics and shipbuilding.

As Mr Roh prepared to leave the prosecutors' office for prison, he pleaded for leniency for the businessmen implicated in the scandal, explaining that he accepted full responsibility. But prosecutors said some of the business leaders who allegedly bribed Mr Roh would be indicted.

Analysts expressed particular concern about the future of Daewoo if Mr Kim is indicted and convicted, which might force him to resign as chairman under government pressure. "Mr Kim is the glue that holds Daewoo together. He is the driving force behind the group," said Mr Jonathan Dutton with of SBC Warburg Securities in Seoul.

Although Mr Roh claimed the funds were political contributions, the prosecution said it considered the money to be bribes since Mr Roh made the final decisions on government contracts and policies affecting business.

Both the Daewoo and Dong-ah chairmen were convicted last year of giving kickbacks of Won200m each to the former head of Korea Electric Power for nuclear plant construction projects. They received suspended jail terms and were pardoned in August.

S Korea speeds efforts to curb chaebol, Page 7
Lex, Page 14

Boeing, McDonnell shares rise on merger talks report

By Michael Skapinker in London and Bernard Gray in Dubai

Shares in Boeing and McDonnell Douglas rose yesterday following a report that the two US companies were in merger talks which could create one of the world's most powerful aerospace and defence groups.

By mid-day in New York, McDonnell Douglas shares had risen $3⅞ to $90⅞, while Boeing was up $1 to $75. Analysts cautioned, however, that talks between the two groups might not lead anywhere and that any merger or asset exchange might run into anti-trust difficulties.

Both companies refused to say whether the talks, reported in the Wall Street Journal, had taken place, but analysts said there would be some logic in combining Boeing's dominant position in civil aircraft manufacturing with McDonnell Douglas' strong defence business. There is little overlap between the groups' defence businesses. A merged group would be the only significant competitor to Lockheed Martin in the manufacture of military aircraft. McDonnell Douglas recently won an $18bn order to supply C-17 military transport aircraft to the US air force.

McDonnell Douglas has been struggling, however, to remain a civil aircraft manufacturer and industry observers believe a merger could result in its civil activities being shut down.

Its share of civil aircraft deliveries was only 7.5 per cent last year, according to data compiled by Airline Business magazine. Boeing had 52.2 per cent, with Airbus Industrie, the European consortium, taking 23.8 per cent. If Boeing captured McDonnell Douglas' market share, its lead over Airbus would be overwhelming. Airbus said yesterday of a possible Boeing-McDonnell Douglas merger: "If this were really to happen, in spite of the anti-trust laws in the US, international competition would become even more fierce, with only one supplier of large airliners based in the US. World airlines would feel even more need to have a strong competitor around, such as Airbus."

Mr Jonas Stiklorius, an analyst at Natwest Securities in New York, said he expected Boeing to argue that there should be no regulatory opposition to a merger of its civil aircraft division with McDonnell Douglas' because it was an international business in which Airbus provided effective competition.

Another analyst said the lack of overlap between the two defence businesses might persuade regulators that a merger would not rednce competition.

Lex, Page 14
Merger would form powerful defence force, Page 19

Russia to raise cash overseas after deal on debt

By Andrew Fisher in Frankfurt, John Thornhill in Moscow and Conner Middelmann in London

Russia announced plans to start raising money on international capital markets next year after reaching agreement with western creditor banks yesterday on rescheduling $32.5bn in debt.

Mr Oleg Davydov, Russia's deputy prime minister, called the deal on debt carried over from the former Soviet Union "a significant breakthrough" in his country's efforts to normalise its relations with international lenders.

The agreement, reached with representatives of 600 foreign commercial banks, reschedules $25.5bn of principal and $7bn of interest arrears. This will occur over 25 years, with a grace period of seven years.

The deal, finalised after four years of haggling, should pave the way for Russia to tap international capital markets. Mr Davydov said the government intended to meet 37 per cent of its estimated 1996 budget deficit of Rbs87,000bn ($19bn) by raising funds on the international markets.

Merrill Lynch, the US investment bank, has already been retained by the Russian government to explore how it can raise money abroad and has been working on details of a Eurobond issue.

Mr Christian Vontz, the Deutsche Bank official chairing the bank advisory committee representing the banks, said the deal contributed to growing investor confidence in Russia and represented an important step in Russia's return to the international capital markets.

He said the rescheduling terms represented an interest rate of 0.8125 per cent over the London Inter-Bank Offered Rate. This is in line with a preliminary agreement reached in London last month ahead of yesterday's Frankfurt talks.

A payment of $1.5bn will be made by the end of 1996 to cover interest due this and last year. This is in addition to $500m already paid in trust to the Bank

Continued on Page 14

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · NEW YORK · LOS ANGELES · TOKYO

Companies raided in plastics prices probe

By Jenny Luesby

European Commission officials were yesterday continuing raids on the offices of 20 petrochemical companies, as part of their investigation into claims of anti-competitive collusion to push up plastics prices.

The Commission said 20 companies had been raided in nine countries since dawn on Tuesday, following complaints by hundreds of manufacturers and traders about a surge in petrochemical and plastics prices last summer.

BASF, Hoechst, Shell, DSM, Petrofina, BP, Solvay, Dow Chemical and Elf Atochem all confirmed yesterday that they were among the companies raided. BASF said the raids were part of an investigation into suspected restrictive practices in the market for petrochemicals such as ethylene, polyethylene and polypropylene. Commission officials had raided offices and photocopied documents but "as far as the suspicions are concerned, they are unfounded".

The price movements that prompted the complaints began last May. In just 20 weeks, European spot market prices for ethylene, the raw material for many plastics and speciality chemicals, rose from $350 to $575 per tonne. Prices stabilised in January and have since fallen to about $400. Other petrochemicals were similarly affected, creating a rise in raw material costs for makers of everything from paint and packaging to food and electrical goods.

Petrochemical producers say the rises were prompted by a surge in demand, which had forced them to put many of their customers "on allocation" by last summer. Customers claim such shortages were inexplicable, and allege that producers were operating plants below capacity, and stockpiling even as they limited supplies.

This argument is given credence by apparent over-capacity in the industry – petrochemical producers were using less than 85 per cent of capacity from 1991 until the middle of last year, when output was boosted by export opportunities, as a drought in Japan created petrochemical shortages in Asia and the US economy took off. Even then, capacity utilisation was well under 100 per cent.

And with petrochemical exports tending to bring in lower prices for producers than domestic sales, it remains unclear why there were such acute shortages in Europe.

This question prompted complaints to the competition authorities.

The Office of Fair Trading in London said yesterday it had received dozens of complaints, but none had offered evidence of collusion or anti-competitive practices. The European Commission has been inundated with complaints, prompting the raids in France, Germany, the Netherlands, Belgium, Italy, Austria, Denmark, Spain and the UK, in an effort to establish the cause of the price rises.

A Commission official said yesterday the inquiry could take months. "I do not know whether it is price fixing. I do not know whether it is quantity fixing," he added.

Moscow's snub to arms pact upsets west

By Bruce Clark, Diplomatic Correspondent

Western governments have reacted with dismay to Russia's open defiance of a key arms-control agreement which was due to enter full force today, but they are struggling to prevent the treaty from unravelling altogether.

General Pavel Grachev, the Russian defence minister, has this week made official a state of affairs which has been feared by western arms experts for many months: Moscow will not even pretend to be meeting today's deadline for full compliance with the treaty on Conventional Forces in Europe.

The CFE pact, intended to drive the spectre of confrontation as far away from central Europe as possible, is one of the most ambitious exercises in disarmament ever conceived, and it provides for the removal or destruction of up to 50,000 tanks, artillery pieces and armoured vehicles.

But Russia has complained since 1993 that the treaty, designed in 1990, is ill-suited to the post-cold war world.

"This treaty was signed by the leaders of a state [the Soviet Union] which no longer exists," said Gen Grachev, who argued that compliance with the treaty's restrictions on armour in north-western and south-western Russia would "violate our country's system of security" in both regions.

He said Russia was not alone in infringing the treaty: at least seven or eight countries were doing likewise.

A British official, in a reaction typical of most western comment, described the latest Russian pronouncements as a serious but not irreparable blow to the CFE project. "Nato cannot and will not ignore a breach of the treaty which is regrettable and damaging," he said, while adding that Moscow's defiance "should not become the rock against which the whole treaty founders".

Up to now, Nato has argued that Russia must conform with the treaty, then seek revisions at a review conference next May. Mr William Perry, US defence secretary, has conducted elaborate negotiations with Gen Grachev in the hope of finding a formula for saving the treaty without having to resubmit for ratification.

The fact that work on tinkering with the treaty has run into extra time will not doom efforts to save it, but it will be a heavy blow, according to Ms Sarah Watkling, a US expert on the treaty.

The Nato member which harbours the greatest suspicions about Russia's attitude to CFE is Turkey, which has said it will not be bound by the treaty's provisions unless Russia also conforms. Ankara's reaction to the latest Russian moves was predictably stern. It denounced Moscow's lack of interest in withdrawing equipment from the Caucasus region and said this amounted to a "de facto and de jure" violation of the treaty.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297 0621, Fax (01) 4297 0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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Lafontaine dazzles unhappy delegates

Successor to lacklustre Scharping must find way to reunite battered party, writes Peter Norman

Mr Rudolf Scharping got part of what he wanted. Germany's opposition Social Democratic party needed clarity, he said at the start of the third day of the SPD congress yesterday.

Mr Oskar Lafontaine's convincing victory in the hastily arranged vote for the post of SPD chairman an hour and a half later was a clear demonstration of one thing: that the SPD's activists saw no future for their badly battered party under the leadership of the lacklustre and unlucky Mr Scharping.

But Mr Lafontaine's return to the front ranks of the SPD leaves open many questions about the party's future and its politics in what is shaping up to be a crucial period of change in Germany. The ruling centre-right coalition in Bonn has begun to show the first signs of weakness since its narrow election victory in October 1994 and, with 3.5m unemployed, Germany is facing difficult economic and social problems.

Immediately after Mr Lafontaine's victory, victor and vanquished pledged to work together. In an early sign of harmony, Mr Scharping was elected to be one of the party's five deputy chairpersons with the overwhelming support of 482 of 517 votes cast.

But Mr Lafontaine, in spite of his capacity to bring the delegates to their feet in an enthusiastic standing ovation on Wednesday, will have his work cut out to bind together a party which in recent months has become a byword for bickering and which currently commands the support of only 28 per cent of the German electorate.

There is no doubt that Mr Lafontaine, 52, is a political heavyweight. As premier of Saarland, he is accustomed to handling power. At the congress in Mannheim, he has shown he is a master tactician. He kept a sphinx-like silence for 1½ days as the delegates let loose their frustration and anger at the quarrelling that has brought the party so low. When it was clear that Mr Scharping had failed to win the delegates' full support, Mr Lafontaine dazzled the congress with his impassioned oratory on Wednesday and unleashed enthusiasm in his favour that culminated in yesterday's vote.

Not all Mr Lafontaine's previous election campaigns have been so successful. He was the SPD's candidate for chancellor in the general election of 1990 and led the party to its worst result since 1957, gaining just 33.5 per cent of the vote. A mentally disturbed woman stabbed him in the neck at an election rally, and his usual confidence was shaken.

But he has since bounced back, and many of the worries that he raised in the campaign about the course of German union have come back to haunt the government of Chancellor Helmut Kohl. In particular, his claim that German unity could not be financed without tax increases has proven to be true.

Mr Lafontaine comes from the left of the party and it was his opposition to the deployment of German Tornado fighters over Bosnia in support of a peace settlement in the former Yugoslavia that precipitated the sudden challenge to Mr Scharping.

His rousing speech on Wednesday, declaring that Germany should be a "power for peace" in world affairs, appealed to the pacifist wing of the party. It recalled his earlier opposition to Nato rearmament and nuclear power during the last SPD government of Chancellor Helmut Schmidt in the early 1980s.

But to declare, as did the government parties in Bonn yesterday, that his election marks a "departure from the middle ground" and a "lurch to the left" for the SPD may be to oversimplify matters.

Mr Lafontaine's election was given a qualified welcome by the German chambers of industry and commerce. They pointed out that he played a key part in drawing up the economic policy resolution that was debated by the congress on Wednesday and yesterday. Although its 14 pages included a multitude of sometimes conflicting policies, the resolution attacked some leftwing taboos by including proposals for modernising the social security system, flexible working hours and reduced bureaucracy.

In his speech on Wednesday, Mr Lafontaine chose to skate over these issues and the need for industry to cut costs and focus instead on points, such as the need for shorter working hours or more research and development, that appealed to his audience. But this does not mean he will take SPD economic policy significantly to the left.

The possibility that he may straddle the various wings of the party was shown by his decision to declare strong support for the EU, so calming the many pro-European delegates who feared he was turning against economic and monetary union, while insisting that the fault with Emu was that it was insufficiently supported by political union.

Mr Lafontaine's election as SPD chairman leaves Mr Scharping as leader of the party in the Bundestag, the lower house of parliament in Bonn. It also leaves unclear who will be SPD candidate for chancellor in the next general election in 1998. But that does not have to be decided until 1997. Until then, it will be Mr Lafontaine's job to pull the party together behind a convincing set of policies that offer hope of election victory.

Editorial comment, Page 13

Scharping (left) congratulates Lafontaine after the vote AP

German commercial TV looks to Hollywood

Networks buy US films to woo young viewers uninterested in local ones, writes Judy Dempsey

Germany's rival commercial television networks, already locked in a battle for market share and advertising revenue, are buying more US film productions to attract the younger generation.

The struggle involves RTL, owned partly by Bertelsmann, the German entertainment and publishing group, and Sat-1 television, owned by Mr Leo Kirch, the media mogul, and the Axel Springer newspaper group, in which Mr Kirch holds a sizeable stake.

It intensified this week when the Kirch group clinched the distribution rights for a package of films from MCA, the US film producer. The package, which includes Schindler's List, Jurassic Park and ET, cost $30m, nearly half the price paid by the BBC when it acquired the UK distribution rights.

"We have to stay ahead of the pack. The competition is becoming tougher. And besides, this package is a great investment," said Ms Michaela Niemeyer, a spokeswoman for Kirch.

The purchase of distribution rights followed a recent deal between RTL and Time Warner, one of the biggest film distributors in the US. RTL bought 50 films and about 500 hours of programming over a five-year period for $240m.

The acquisition of these films reflects the determination of the two networks to increase their share of Germany's annual DM4.8bn ($3.4bn) television advertising revenue, one of the biggest markets in Europe. In addition, they are determined to attract the younger generation, which appears to have a minimal interest in German productions.

"If you want the younger audience, you have to get US programmes," said Mr Helmut Thoma, chairman of RTL. "You get high viewing for the German product, but that's not coming from the young people."

RTL, the market leader, has an overall 18.1 per cent share, but a 21.9 per cent share of the 14-29 age group. Sat-1, with an overall market share of 14.5 per cent, has a 13.7 per cent stake of the younger generation.

In addition Pro 7, a latecomer to German commercial television, also owned by Mr Kirch's son, Thomas, is rapidly climbing. It already enjoys a 16.7 per cent share of the 14-29 age group – its main attraction being US films.

Although under increasing pressure from RTL in terms of market share, the Kirch group reckons it can retain its monopoly on film distribution in Germany – and boost Pro 7's market share.

It already has a big advantage over its rivals in the film library built up by Mr Kirch during the 1950s. It contains 80,000 hours of programming, including 15,000 features films and 50,000 hours of television programming which RTL/Bertelsmann admits it could never match.

And the Kirch group has been able to pick and choose its clients in Germany – mainly its own Sat-1, ZDF, the state television channel which is politically close to Chancellor Helmut Kohl, and Pro 7.

"Kirch has these advantages but we will not give up in trying to maintain our market share," said Mr Thoma. But he wondered what impact the obsession with US productions would have on home-grown ones.

Auctioneers to lose ancient privilege

By Andrew Jack in Paris

The historic stranglehold of France's 460 auctioneers is set to be broken within the next two years, under radical new proposals outlined by Mr Jacques Toubon, minister of justice.

The commissaires-priseurs will face competition from foreign auction houses for the first time since they were granted a monopoly over public auctions by Henri II in 1554.

In response to growing pressure from the European Commission, the French council of ministers has decided in principle that a liberalisation of the profession will take place on January 1 1998. Detailed recommendations are expected to be published by a working party in spring next year.

International auction houses such as Sotheby's and Christie's have long complained that in France – unlike any other advanced country – they are forbidden from operating public sales.

Both maintain offices in France. They carry out valuations and hold private exhibitions for forthcoming shows, but then have to ship works of art abroad and hold the auctions in their salerooms in centres such as Geneva, Monaco or London.

Sotheby's wrote to the French government four years ago calling for a reform to the system. After some months without a response, it pursued its complaint with the European Commission in Brussels, which then took up the complaint and has been demanding reforms.

There have been changes to the system over the years, but auctioneers still retain many of the rights they were granted by Napoleon early last century. He renewed their monopoly on sales, partly in an effort to cut down on corruption and introduce controls on the sale of stolen goods.

The commissaires-priseurs undergo a two-year apprenticeship and pass an exam before buying their way into a position, which gives them a quasi-legal role. They are self-employed but are accountable to the ministry of justice, and corporate bodies – such as the international auction houses – are not eligible.

Mr Gérard Champin, chairman of the national chamber of auctioneers, yesterday welcomed the debate, which would "clarify" the position of the profession. He stressed that he would still want to see retention of a number of safeguards to ensure that auctioneers' reputations remained high.

The Princess de Beauvau Craon, head of Sotheby's France, said "it is good news" if the outline of change was correct. Others in the profession stressed that it was important the debate about reform included discussion of wider issues affecting the health of the French auction market, including the 5.5 per cent value added tax charged on works of art imported for sale.

This has considerably weakened France's attractiveness as a country for auctions against the UK, which has a rate of 2.5 per cent, and other countries where there is no such tax.

Drug companies face one-off FFr2.5bn levy

By John Ridding in Paris

The French government plans to negotiate with the pharmaceuticals industry on how to implement a FFr2.5bn ($513m) charge requested by Mr Alain Juppé, the prime minister, as part of measures to eliminate the country's welfare deficit.

Officials said yesterday the mechanisms of the charge had not been finalised, but the contribution was necessary to restore balance in the state health assurance system and to offset the rise in pharmaceutical sales, which increased by 12 per cent in the year to September 1995.

Mr Juppé described the charge as "exceptional and temporary" in a speech outlining sweeping welfare reforms to the National Assembly on Monday. Officials said the payment would be a one-off charge, due in 1996, from companies operating in France.

Industry analysts expressed surprise at the move. "It is a large amount and obviously it is bad news for the sector," said Mr Arnaud Delepine, analyst at Société Générale in Paris. He added, however, that the impact for companies would depend on how the contributions were determined.

The main concern for the big companies was whether the contribution would be determined by market share or by discipline in adhering to price and volumes contracts agreed with the government last year. "A split based on market share could have a serious impact on the big quoted pharmaceuticals groups such as Rhône Poulenc Rorer and Sanofi," said one analyst.

Most in the industry played down this threat. Mr Jean-Claude Leroy, finance director of Sanofi, indicated that commitment to agreements would determine the allocation of charges. "We have stuck to the agreement we reached last year so we do not expect a material impact on profits," he said. However, smaller companies which have exceeded targets could be hit, possibly accelerating consolidation in the sector.

Although many said the "contribution" was less draconian than measures included in welfare reforms elsewhere, notably in Germany, some reacted with frustration. "This extra burden is unacceptable," said Mr Bernard Helain, president of Bristol Myers Squibb in France. He said the industry already paid annual taxes of about FFr3bn, plus a further FFr1bn in taxes on publicity costs, compared with research expenditure of FFr13bn.

Although drugs prices are generally cheaper in France than in other developed markets, because of a tradition of price controls and subsidies, the country is one of the biggest spenders on pharmaceuticals products. This is partly because patients are allowed to visit several doctors and each doctor can prescribe subsidised drugs. An OECD study showed that the consumption of pharmaceuticals per person averaged $309 in France in 1993, compared with $181 in the UK and $275 in Italy.

EUROPEAN NEWS DIGEST

Swedish central bank optimism

The upturn in Sweden's debt-burdened economy received a further boost yesterday, when the central bank, the Riksbank, said inflationary pressures had eased in recent months and held out the prospect of lower interest rates.

In a marked change of tone from its earlier reports warning of inflationary risks, the Riksbank said it expected inflation to average between 2.5 per cent and 3 per cent next year, above the target level of 2 per cent but within its 3 per cent upper ceiling.

It said increased confidence in the Social Democratic government's tough budget programme, which is set to stabilise the growth of the state debt this year, and the resulting rise in the value of the krona, contributed to the improved inflation outlook.

If this continued "there would be less need for tightness in interest rate policy," the bank said. The recent strengthening of the krona has led to speculation about when the currency might join the European exchange rate mechanism as a preliminary step to qualifying for European monetary union.

But Mr Urban Bäckström, the Riksbank governor, signalled that Sweden was in no hurry to take such a step, repeating his view that the krona remained undervalued. He stressed that the key issue before joining Emu was that the Swedish currency had been stable over time, not that it was part of the ERM. *Hugh Carnegy, Stockholm*

BCCI settlement case dropped

Lawyers representing four former employees of the failed Bank of Credit and Commerce International yesterday withdrew their appeal against a global settlement for creditors.

Their decision, which has been welcomed by the liquidators of the bank, helps clear the way for a first dividend to creditors of 20p in the pound by late 1996. However, Luxembourg's Superior Court, which heard the appeal, will not formally respond to the withdrawal until December 20.

All parties are optimistic that the settlement has now cleared the court process. The settlement is based on a $1.8bn offer from the government of Abu Dhabi, the principal shareholder in BCCI. It is understood that Abu Dhabi will be reluctant to make a payment to the liquidators until the legal situation is finalised.

BCCI collapsed in 1991 with debts of $10bn amid allegations of widespread fraud. The total number of creditors is still unknown – but various estimates range up to about 250,000 worldwide. *Jim Kelly, London*

Call to privatise tractor group

Polish Industry Minister Klemens Scierski said the government wanted to privatise the large tractor producer Ursus, where workers staged a warning strike yesterday in the latest sign of the financial crisis at the enterprise.

"We would like to open a tender for a strategic investor in Ursus," Mr Scierski said. "We have to solve Ursus' problems for good."

He said that before any sale, Ursus – which is controlled by the Industry Ministry – would be transformed into a stock company jointly owned by its creditors, the treasury and employees.

Ursus' 12,000 workers staged a two-hour warning strike, declaring the government's plan to swap the company's debt for shares did not guarantee the enterprise's survival. They also protested against government failure to grant the company a promised preferential loan, which they said would restore its financial liquidity.

But Mr Scierski said the government had done a lot to help Ursus, which was a flagship of Polish industry under the previous communist system. Ursus, which made 14,000 tractors in 1994, cut its production plans to 13,000 units from 28,000 forecast earlier, as banks have refused to extend necessary credits. *Reuter, Warsaw*

Azerbaijan poll criticised

Foreign electoral observers in Azerbaijan have voiced "serious doubts as to the fairness" of the country's first parliamentary elections last Sunday.

The joint observation mission from the United Nations and the Organisation for Security and Co-operation in Europe said 60 per cent of individuals and a third of parties that tried to register had been unable to do so, while media coverage of political campaigns was occasionally censored. There were also irregularities in the voting procedure and in vote counting, the joint mission said.

Misdemeanours were practised both by supporters and opponents of President Haidar Aliev, said a UN official in Baku. He said: "I don't think it was design from above, but there was not much done to prevent it." The election results are expected within the next days. *Ina Sarikhani, Baku*

German shipyard aid cleared

The European Commission has approved the release of aid worth DM156.1m ($110m) to the Volkswerft shipyard in Stralsund, Mecklenburg-Vorpommern, in Germany, it said yesterday. Approval came "in view of the progress of the investments carried out and the expenditure incurred by the yard," the Commission said.

The aid is part of a DM398.7m package cleared by the Commission in 1993 on the yard's privatisation and takeover by a consortium led by Bremer-Vulkan. Remaining aid, worth DM89.1m, could not be approved until the Commission had assessed various conditions, it said. *Reuter, Brussels*

Recovery in French output

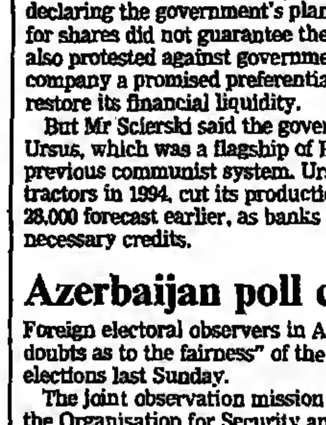
French industrial production saw a modest recovery in October in most sectors, but not in semi-finished goods, which declined further, according to a survey of business leaders by the Bank of France.

Overall demand improved mostly thanks to orders from abroad, notably from the US and Asian countries. The performance of European markets continued to be mediocre.

Economic activity is likely to remain stable in the months ahead, with progress expected in the capital goods, vehicle and agriculture industries, the survey found. *AFX, Paris*

ECONOMIC WATCH

Spain's trade deficit 20% up



Source: FT Extel

Spain's trade gap widened by 20 per cent in the first nine months of the year, compared with the same period of 1994. However, the Economy and Finance Ministry said the deficit figure of Pta2,234bn (£11.5bn) showed an improvement in the trend over the past few months. Export growth, less buoyant this year than last, was catching up with the increase in imports and should move slightly ahead by the end of the year, it said. Both exports and imports rose in the nine-month period by just over 18 per cent, with the import rise largely reflecting purchases of intermediate goods rather than consumer products. The shortfall in September was almost 9 per cent lower than in the same month last year, with exports almost 22 per cent up against a 13 per cent growth in imports. A recent Banco Hispano Central study forecast that the 1995 trade deficit would rise to 3.5 per cent of gross domestic product compared with 3.0 per cent in 1994, but said the gap would be offset by a strong year for tourism and a sharp rise in transfers from the EU. *David White, Madrid*

Poll incentive for Russia's media groups

By John Thornhill in Moscow

Mr Victor Chernomyrdin, Russia's prime minister, yesterday promised the media a range of financial benefits, including substantial tax breaks, raising concerns about the relationship between government and the press in the run-up to next month's parliamentary elections.

At the same time, Mr Chernomyrdin urged the media to behave responsibly in the current election campaign and not to cave in to pressure from any side of the political spectrum. But he requested the editors not to allow "odious candidates" to air their views. "We should not be under the thumb of stupid people," he said.

Some Russian politicians, such as Mr Vladimir Zhirinovsky, the inflammatory nationalist who leads the Liberal Democratic party of Russia, have already complained that some media outlets are refusing to carry their advertisements.

In a meeting with senior editors, Mr Chernomyrdin said a new law would come into effect at the beginning of next year exempting the media from value added tax and giving them the same financial privileges as cultural institutions.

"Forms of media ownership are not the issue for the government. The main thing is that the media should have enough financing to develop, not just survive," the prime minister said.

The government's move highlighted sensitivities about the possible conflicts of interest that confront Mr Chernomyrdin in his dual position as head of government and leader of the moderate Our Home is Russia electoral bloc, which is contesting the December 17 elections.

Some of Our Home is Russia's campaign strategists have recently argued that if the movement is to be attacked by its opponents as the "party of power" then it should act like it and exploit some of the benefits of office.

In recent weeks, Mr Chernomyrdin has announced a series of more populist measures, promising to raise social payments, help compensate those who lost money in fraudulent investment scams and widen exemptions for army conscription.

But Our Home is Russia has been struggling to attract popular support and has drawn fierce criticism from the communists, who lead in most pre-electoral polls.

Russia's Constitutional Court, meanwhile, is still considering the legality of the country's electoral laws and its ruling could yet lead to the poll being postponed.

However, Mr Chernomyrdin said yesterday that no-one should be allowed to delay the elections.

Polish bishops intervene over poll

By Christopher Bobinski in Warsaw

Poland's Catholic bishops, appalled at the prospect that the former communist, Mr Alexander Kwasniewski, might win the final round of the country's presidential election on Sunday, have swung their support behind President Lech Walesa.

The incumbent is currently running neck-and-neck with his challenger in the latest polls.

Scores of bishops have written pastoral letters to be read at Mass on Sunday as people go to vote. Bishop Roman Andrzejewski has said in a missive to be read in rural parishes that a vote for Mr Walesa's rival "would give full power to the heirs of the old PZPR (communist party) ideology and threatens the limitation of our independence as happened between 1945 and 1989".

Cardinal Jozef Glemp, the primate of Poland, has ingenuously told parish priests in his Warsaw diocese not to politicise sermons this Sunday. But he has asked them to say masses on Saturday for "the elections, for the fatherland and for President Walesa".

He recently left listeners to Radio Jozef, a local church radio station, with no doubt about his sympathies by saying that on Sunday "we will be choosing between an atheistic system and one which recognises the existence of God".

Yesterday Radio Jozef spent most of the morning asking listeners to call in and comment on the proposition that "a Christian and a Catholic cannot vote for Mr Kwasniewski", a theme bishops have pursued in their pastoral letters.

In Przemysl in the south east, Archbishop Jozef Michalik has written that a vote for Mr Kwasniewski, who has said that he would not oppose a liberalisation of Poland's strict anti-abortion laws, "burdens the conscience of the voter with complicity in an act of murder".

Abortion is one of the issues which is worrying the church most as the election of Mr Kwasniewski could lead to liberalisation of the law. The bishops are also furious that the Left Democratic Alliance (SLD), Mr Kwasniewski's party in the coalition government, has been holding up ratification of the concordat, a treaty signed in 1993 between Poland and the Vatican. The agreement regulates the Catholic Church's status in the country.

How much this agitation will help Mr Walesa is another matter.

Around 65 per cent of adult Poles attend church on Sundays but more than a third have told pollsters they will vote for Mr Kwasniewski.

Election rivals: Mr Alexander Kwasniewski (left) shaking hands with President Lech Walesa on Wednesday evening after their final live televised debate of the presidential campaign AP

Carignon guilty of corruption

Ex-minister is jailed in France

By Andrew Jack in Paris

Mr Alain Carignon, the former mayor of Grenoble, was yesterday sentenced by a Lyons court to five years' imprisonment for corruption and interfering with witnesses.

Judges in the criminal court also fined Mr Carignon FFr400,000 ($80,580), banned him from public office for five years and reprimanded him for "committing the most serious act possible for an elected official". Two years of his five-year sentence were suspended.

Mr Carignon – whose lawyers said he would appeal – was minister of communications in the government of France's previous prime minister, Mr Edouard Balladur, until he was forced to resign after being placed under formal investigation by magistrates last year. His case was one of the first in a series of high-level corruption investigations involving French business and politics to grab national attention.

It was also notable because Mr Carignon spent almost seven months in pre-trial detention, leaving the city of Grenoble without its mayor in the run-up to municipal elections in June. The so-called Dauphiné News scandal centred around accusations that Mr Carignon had received about FFr20m in cash or kind in exchange for granting the water contract for Grenoble to Lyonnaise des Eaux and a local partner in 1989.

The Lyons court yesterday sentenced Mr Jean-Louis Dutaret, his friend and former adviser, to four years' imprisonment, with two suspended, and imposed a FFr400,000 fine for complicity to corruption.

Mr Marc-Michel Merlin, a Lyons-based businessman, received a FFr1m fine and four years' imprisonment with three suspended. Mr Jean-Jacques Prompsy, an executive for Lyonnaise des Eaux at the time of the award of the contract, received a four-year suspended sentence and a FFr400,000 fine. Mr Frédéric Mougeolle, former head of the Dauphiné News group, which supported Mr Carignon and was financially aided as part of the scandal, received an 18-month suspended sentence and a FFr70,000 fine. Three other people also received more minor sentences.

MEPs to support deal with Turkey

By Caroline Southey in Strasbourg

The European Parliament is expected to vote in favour of a customs union with Turkey next month, after a change of heart by a majority of Socialist MEPs who had linked approval of the accord to Turkish political reform.

Barring last-minute hitches, the parliament is expected to give its assent on December 13, removing the last obstacle in the customs union planned for next year under which tariffs between Turkey and the EU will be harmonised.

But the Socialist group, the largest bloc in the parliament, plans to maintain pressure on Turkey until the last possible moment. It still insists that ratification of the accord remains conditional on the release of four Turkish MPs and enforcement of constitutional reforms. It will not formally agree its position until days before the vote.

The European People's party, the second largest bloc, this week backed a vote in December, a sign it felt confident of a positive outcome.

A vote in favour will come as a huge relief to EU member states, which feared that a veto or a decision to postpone the vote would have a negative effect on the outcome of Turkish elections next month and would undermine the EU's strategy to anchor Turkey in western Europe.

The decision is expected to boost the electoral chances of Mrs Tansn Çiller, Turkey's prime minister, in the polls on December 24. Mrs Çiller has made foreign policy a central theme in her election campaign, warning earlier this month that the European parliament's rejection of the accord would give the upper hand to Islamic fundamentalists in Turkey.

The parliament's tough line on the customs union has softened in recent days under political pressure on MEPs. EU leaders, including Mr Felipe González, Spain's Socialist prime minister, and top Turkish and American officials, have been working hard to ensure a vote is taken in December and that the accord is approved.

Ms Pauline Green, leader of the Socialist group and the largest political bloc in the parliament, complained that the lobbying of MEPs by American and Turkish officials had been "excessive and counter-productive".

A number of Socialist MEPs, notably from the UK and Greece, still oppose a vote on the accord in December. They remain concerned over Turkey's recent decision to uphold 15-year sentences for four MPs found guilty of aiding Kurdish guerrillas.

EU social alliance under strain

By Robert Taylor in Madrid

The alliance between Europe's trade unions and employers which helped influence the Maastricht Treaty four years ago, appears to be under severe strain over the European Union's intergovernmental conference (IGC) next year.

The two sides of industry, described in official documents as the "social partners", appear unlikely to agree a meaningful joint set of demands for the IGC.

Yesterday a European Trade Union Confederation (ETUC) conference in Madrid laid out proposals which include making job creation a much higher priority and enshrining by treaty the right to strike. Unice, the employers's association has already made clear it does not want either proposal to be adopted by the EU next year.

"I have written to Unice asking it to join us in reaching a common position but so far I have had no reply. I will keep on trying", said Mr Emilio Gabaglio, the ETUC's general secretary yesterday. "At the moment we appear to be a long way apart on these issues."

Four years ago the two organisations were made common cause in pressing successfully for inclusion of the social protocol in the Maastricht Treaty. Two weeks ago tho first fruits of the new process were announced with a draft framework agreement on unpaid parental leave and a joint statement opposing racism and xenophobia.

But union officials are privately pessimistie abont the prospects of Unice and the ETUC agreeing a common agenda for the IGC.

Mr Zygmund Tyszkiewicz, Unice's director general argues that the EU should concentrate on developing business objectives with strict adherence to the criteria for economic and monetary union, completion of the single market and more emphasis on competitiveness as a way of reducing unemployment.

Unice fears that any move towards a more central role for social issues in the EU might water down the strict criteria required for EMU.

Mr Tyszkiewicz also opposes the unions' call to incorporate in the treaty either the social chapter or a new set of fundamental rights for workers – he fears it will be expressed in imprecise language, leading to legal uncertainty for companies.

Mr Gabaglio said yesterday the unions continued to back the creation of EMU and did not wish to question the criteria, but wanted to inscribe into the EU treaty a stronger commitment to dealing with unemployment.

South Africa faces squeeze on public spending

By Roger Matthews in Johannesburg

The South African government, which has won international approval for its commitment to fiscal discipline, is being forced to look for deep cuts in public spending as a result of the failure to meet this year's budget targets.

Mr Chris Liebenberg, minister of finance, said recently the government would not be able to keep the budget deficit to the 5.8 per cent of gross domestic product target announced in March. The deficit is likely to be at least 6 per cent of GDP, and there are fears it could be larger if revenue projections are not met. Mr Estian Calitz, director general of the finance ministry, confirmed at a conference in Stellenbosch this week that there would be "some slippage" in the budget target, but would not be more specific.

The main reason is said to be unexpected demands from provincial governments and, particularly, the former homelands.

The current budget was drawn up on the assumption that the previous year would show a 6.4 per cent deficit, but due to underspending, particularly on the Reconstruction and Development Programme (RDP), the actual outcome was 5.7 per cent. So this year's projected 6 per cent, or more, represents a significant worsening of the fiscal gap, instead of the promised improvement. Servicing official debt already consumes about 18 per cent of revenues, and reducing it is one of the government's priorities.

Evidence of the government's concern that its reputation for fiscal prudence might be at stake came on Wednesday when the cabinet agreed to set up a special unit in the ministry of finance to find new ways of cutting spending.

The unit will look particularly at identifying cash savings on government spending agencies that are not part of the normal budget cycle, and do not have an affect on the politically important RDP which is designed to provide and improve basic services for the most deprived members of the community.

To offset the possible damage to its fiscal credibility, the government is preparing to announce a far more ambitious reduction in spending for the budget due in March.

Microphones inadvertently left on during a private session of the parliamentary finance committee revealed that officials in the ministry of finance were suggesting that the new deficit target could be as low as 5 per cent of GDP. Every ministry would be expected to bear some of the cuts, except water and the RDP.

However, the officials still forecast a 12 per cent increase in government spending, about 2 per cent in real terms, which they hope will be offset by a sharper rise in revenue receipts. A 2 per cent real increase is believed to be substantially less than the amounts being sought by most ministries.

In addition the RDP is belatedly getting into its stride and in the next financial year can be expected to take up its full budget allocation.

The ministry of finance said later that the figures given to the parliamentary committee were not final "and could change drastically" during the next four months.

Yigal Amir shows police how he killed Israeli premier Yitzhak Rabin in a reconstruction in Tel Aviv yesterday of the assassination. Angry onlookers shouted abuse at the heavily guarded killer, who wore a flak jacket AP

Algeria votes with tight lips and even tighter security

Roula Khalaf visits polling booths in troubled presidential election

At a school in Saoula, a troubled Islamic stronghold 14km out of Algiers, men and women queued yesterday outside separate offices to cast their votes in Algeria's first round of presidential elections. With a dozen armed soldiers around the school, the women, most of them covered from head to toe, stood silently.

Saoula is considered the home town of Mr Djamal Zitouni, thought to be the leader of the extremist Armed Islamic Group (GIA). Armed men used to roam freely here. On this day of the election, billed by the government as a way out of a four-year crisis that has claimed 40,000 lives, tanks guarded the entrance to the town and young male drivers were being searched.

By midday, government officials brought from out of town to organise the vote said about 50 per cent of people registered to vote at the school had done so. Most would not say who they voted for, nor why they voted.

Most Algerians appear to have heeded calls to cast their ballots, defying the GIA's threats and the appeals by the outlawed Islamic Salvation Front (FIS) and other opposition parties to boycott a poll they consider a sham. By late in the day the government said 65.54 per cent of the 16m eligible voters had voted.

Some went to polling stations driven by a rumour that a stamped voting card may be a requirement to obtain personal documents, such as a passport. Others, tired of being caught in the violence pitting government forces against Islamic militants since 1992, came because they hoped the election would help bring an end to their suffering. An Algiers school administrator said he voted for President Liamine Zeroual, the incumbent and favourite to win in this election for a five-year term. "We know him, we think he can end the violence."

In a polling station in Bachdjarrah, a poor neighbourhood on the outskirts of Algiers where a majority voted for the FIS in the first round of legislative elections in 1991, later cancelled by the government, officials were expecting a 60 per cent turnout.

"There are several rumours going around," said one of the organisers. One of them is that the GIA is telling people to vote for Nahnah." Mr Mahfoud Nahnah is a moderate Islamist and one of three candidates challenging Mr Zeroual. Mr Nahnah is despised by the leadership of the FIS but is expected to draw on some of its religious vote.

The other candidates are Mr Said Saadi an anti-Islamist, and Mr Noureddine Boukrouh, a businessman. A candidate needs to secure more than 50 per cent of the vote to become president on the first round.

A big turnout is crucial to the government. In addition to lending legitimacy to the regime's policies of crushing Islamic militants who took up arms in 1992, the election is intended to undermine the FIS and prove that the Algerian political scene has evolved in the last four years.

To deter extremists, the government yesterday turned Algiers and its surrounding areas into a fortress. Traffic was thin but interrupted virtually every kilometre by an army or police checkpoint.

At Um Al Masakin school in a middle class neighbourhood in Algiers, a 30-year-old teacher of Arabic, who had just cast her vote for Mr Zeroual, echoed a view often heard around Algiers. "He represents the politics of the revolution, the pride of being Algerian," she said. "Zeroual is strong and he was here when everyone else was afraid to be."

As the government has promised that the election would be free and fair, candidates were invited to send representatives to every voting office. In some voting bureaus, however, only people working for Mr Zeroual were present. "We don't have enough manpower," explained a representative of Mr Saidi. "And some people are afraid to do this."

Clinton ready to tighten Iran stranglehold

By Afshin Molavi and Bruce Clark in Washington

The US administration, under pressure from an angry Congress, is preparing to intensify its boycott of Iran by taking action against non-American companies which help Tehran's oil and gas business.

A new willingness by the administration to move towards a "secondary boycott" emerged from recent Congressional hearings at which US experts on Iran have painted an even blacker picture of the Tehran regime's military machine and subversive activity.

Mr Michael Eisenstadt of the Washington Institute for Near East policy, said Iran "can probably deploy biological weapons" of a kind which the US was powerless to counter. It was also alleged that Chinese companies were, perhaps unwittingly, helping Iran develop chemical weapons.

This testimony, as well as Iran's opposition to the Middle East process, and its gloating reaction to the assassination of Israel's Prime Minister Yitzhak Rabin, has helped to harden Congressional sentiment. A further twist was added by the suggestion, aired by the US ambassador to Riyadh, of an Iranian hand in this week's bomb attack against Americans in Saudi Arabia.

Until now, President Bill Clinton has resisted the idea of compounding the US boycott of Iran with secondary action which could lead to bitter disputes with western Europe, and perhaps a challenge in the international courts.

But with bills calling for a secondary boycott now making their way through both the Senate and the House of Representatives, administration officials are promising to meet Congress at least half-way.

One of the aims is to dissuade foreign companies from bidding for up to $7bn worth of oil and gas projects for which the Tehran government is inviting bids by the end of the year. The tender is itself a response to a severe hard-currency shortage which existing US measures have brought about; and Iran's critics are convinced that now is that time to tighten the screw.

Mr Clinton's action so far against Iran – including the ban imposed in May on Iranian oil purchases by US companies – has been prompted in part by demands from Congress for even tougher steps.

The most extreme demand he faces, from the House Speaker, Mr Newt Gingrich, is for the addition of $18m to the intelligence budget with the aim of destabilising the regime through covert measures.

US officials have ruled out making any explicit commitment to working for the overthrow of the Tehran government, so the best hope they have of compromising with Congress is to accept, at least in part, the bills sponsored by Senator Alfonse d'Amato and Representative Benjamin Gilman.

The d'Amato bill would exclude companies doing oil and gas business with Iran from US government procurement; refuse export licences to their US subsidiaries; and ban US visas to their executives. Discretionary measures would include a ban on imports from offending companies; a prohibition of export assistance and loans from US banks; and a review of mergers and takeovers by the offending companies in the US.

The Gilman bill is similar, without the travel ban on executives, and with tougher language on the denial of export credits.

Rather than attempt to block these bills, the President is expected to press for maximum discretion in applying these sanctions. His room for manoeuvre could be narrow, given that punitive action against non-US companies is opposed by some US business lobbies, as well as Washington's allies.

Aides to Senator d'Amato are insisting, however, that they will not be fobbed off by half-measures.

CONTRACTS & TENDERS

TENDER NO RT 9055 SF: THE SERVICES OF LEGAL, *FINANCIAL, COMMERCIAL AND ECONOMIC ADVISERS* TO GOVERNMENT ARE REQUIRED ON MATTERS PERTAINING TO THE RESTRUCTURING OF STATE ASSETS

Closing time of tender: 11:00 on 11 December 1995

Tender documents are obtainable from and completed tenders should be handed in at: The Office of the State tender Board, WVL Centre, 122 Paul Kruger Street, Pretoria Tel no: (012) 324 1590 x 2090.

Departmental contact for technical information: Prof S R Shabalala, Tel no: (012) 342 7111.

The law of the Republic of South Africa shall govern the contract to be concluded and therefore a *domicilium citandi et executandi* shall be chosen in the Republic.

LEGAL NOTICES

NOTICE

L A Tyer & Company Limited

(Registered Number 147608)

On 17 November 1992, *the Society of Lloyd's* crystallised its charge over the Insurance Transaction Assets of L A Tyer & Company Limited and I, Raymond Thomas Turner FCA, a Licensed Insolvency Practitioner and Partner in Neville Russell, was appointed by the Society of Lloyd's as Receiver of these Assets.

Any party who considers that it is owed insurance monies by L A Tyer & Company Limited, who has not already notified me, is required to notify me with details on or before Friday 29 December 1995. Failure to make such notification may result in exclusion from any distribution to insurance creditors.

Please write to:

Raymond T Turner FCA

NEVILLE RUSSELL
Chartered Accountants

NEXIA INTERNATIONAL

246 Bishopsgate, London EC2M 4PB

If you have any queries please contact Mr S. Dolphin
Tel: 01245 287162 or Fax: 01245 344387
Neville Russell is a member of Nexia International, a worldwide network of independent accounting firms

LEGAL NOTICES

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

No. 006178 of 1995

IN THE MATTER of PROVIDENT MUTUAL LIFE ASSURANCE ASSOCIATION
– and –
IN THE MATTER of GENERAL ACCIDENT LINKED LIFE ASSURANCE LIMITED
– and –
IN THE MATTER of THE INSURANCE COMPANIES ACT 1982

NOTICE IS HEREBY GIVEN that a Petition (the "Petition") was on the 4th October, 1995 presented to Her Majesty's High Court of Justice by the above-named Provident Mutual Life Assurance Association ("Provident Mutual") for the sanction of the Court under Part I of Schedule 2C to the Insurance Companies Act 1982 (the "Act") to a Scheme (the "Scheme") providing for the transfer to General Accident Linked Life Assurance Limited ("GA Linked Life") of the whole of the long term business (as defined by Section 1(1) of the said Act) of Provident Mutual and for orders making ancillary provisions in connection with the said transfer under paragraph 5 of Schedule 2C to the Act.

Copies of the said Petition (containing the Scheme) and a Report by an Independent Actuary pursuant to paragraph 2 of Schedule 2C to the Act may be inspected at each of the offices specified in the Schedule hereto during normal business hours *for a period of 21 days from the publication of this notice.*

The Petition is directed to be heard before the Judge at the Royal Courts of Justice, Strand, London WC2A 2LL on the 20th December, 1995. Any person (including any employee of Provident Mutual or GA Linked Life) who claims that he or she would be adversely affected by the Scheme may appear at the time of the said hearing in person or by Counsel. Any person who intends so to appear, and any policyholder of Provident Mutual or GA Linked Life who dissents from the Scheme but does not intend so to appear, should give not less than two clear days' prior notice in writing of such intention or dissent and of the reasons therefor to the Solicitors named below.

Copies of the documents referred to above will be furnished by such Solicitors to any person requiring them prior to the making of an Order sanctioning the Scheme on prior payment of £11.40 (being a charge of 10p for each page).

Dated this 16th November, 1995

HERBERT SMITH, Exchange House, Primrose Street, London EC2A 2HS. Ref: 146/350 Solicitors for Provident Mutual

THE SCHEDULE

Offices of Provident Mutual

HEAD OFFICE	Six Hills Way, Stevenage, Hertfordshire SG1 2ST
REGISTERED OFFICE	25-31 Moorgate, London EC2R 6BA
BELFAST	Stokes House, 17-25 College Square, East Belfast BT1 6OE
BIRMINGHAM	Lyndon House, Hagley Road, Birmingham B16 8PE
	Suite 3, 3rd Floor, Citadel, 190 Corporation Street, Birmingham B4 6QD
BRIGHTON	36 Frederick Place, Brighton BN1 4AE
BRISTOL	1-4 Portland Square, Bristol BS2 8RR
	Crescent International Business Centre, Temple Way, Bristol B1 6EZ
CROYDON	Lansdowne House, 17 Landsdowne Road, Croydon CR0 2BX
GLASGOW	Unit 1, Buchanan Court, Buchanan Business Park, Cumbernauld Road, Stepps, Glasgow G33 6HX
	93 West George Street, Glasgow G2 1PB
HARROW	1-3 Tyburn Lane, Harrow HA1 3AF
LEEDS	Joseph's Well, Hanover Walk, Park Lane, Leeds LS3 1AB
	30 Park Place, Leeds LS1 2SP
LONDON City	Garden House, 18 Finsbury Circus, London EC2M 7LX
LONDON West End	Victoria Station House, 191 Victoria Street, London SW1E 5NE
MAIDSTONE	6-8 Albion Place, Sittingbourne Road, Maidstone ME14 5DY
MANCHESTER	Suite 16, Manchester International Office Centre, Styal Road, Wythenshawe, Manchester M22 5WB
	Sussex House, 83-85 Mosley Street, Manchester M2 3LG
NEWCASTLE	2nd Floor, Kelburn House, 7-19 Mosley Street, Newcastle Upon Tyne NE1 1YE
NORTHAMPTON	29 St. Katherine's Street, Northampton NN1 2QZ
NORWICH	Westlegate House, 14-18 Westlegate, Norwich NR1 3LR
NOTTINGHAM	4-S Regent Street, Nottingham NG1 5BQ
READING	St. Giles House, 25 King's Road, Reading RG1 3AR
ROMFORD	York House, 50 Western Road, Romford RM1 3LP
SITTINGBOURNE	3-9 Station Street, Sittingbourne ME10 3DU
SOUTHAMPTON	Grosvenor House, Cumberland Place, Southampton SO1 2BO
STEVENAGE	Cromwell House, 142 High Street, Stevenage, Herts SG1 3DB

Offices of GA Linked Life Group companies

YORK	2 Rougier Street, York YO1 1HR
PERTH	Pitheavlis, Perth, Scotland PN2 0NH
CARDIFF	General Buildings, 31-33 Newport Road, Cardiff CF2 1TQ
SWANSEA	General Buildings, 163 St. Helen's Road, Swansea SA1 4DJ

NEWS: THE AMERICAS

Piqued Gingrich forced budget veto

By Jurek Martin, US Editor, in Washington

Slow progress in Congress towards another budgetary showdown with President Bill Clinton took second place yesterday to reactions to the extraordinary admission by Congressman Newt Gingrich, the Speaker, of his motives in forcing the partial government shutdown.

Mr Gingrich confirmed that he had toughened legislation temporarily funding the government, thus inviting a presidential veto, because he felt slighted by the president on the flight last week from the funeral of Mr Yitzhak Rabin, the slain Israeli premier.

The Speaker and his supporters had previously *hinted* at this motive. Mr Gingrich objected not only to the fact that no budget negotiations had taken place on Air Force One, but also – saying it might sound "petty" but was "human" – to being seated in the rear of the aircraft. He was also unhappy with being asked to exit through the back door rather than the front and to the lack of respect shown on board *to his wife*.

His confessions, in a typically free-wheeling press breakfast, were received like manna from heaven by the White House and Democrats in Congress, and with much derision in the media.

Yesterday, the third day of the partial government shutdown, Republican leaders in the House were forced to rule out of order a blow-up of a New York Daily News headline paraded around the floor by Democrats. It ran, in part: "Cry Baby: Newt's Tantrum".

Mr Leon Panetta, White House chief of staff, described Mr Gingrich's remarks as "bizarre and outrageous". He said he had spoken to both the Speaker and Senator Bob Dole, the majority leader, on the flight and neither had offered to go and cut a budget deal.

At the very least, the Speaker's confessions amount to a tactical error in the public relations war with the White House. They may also place more strains on his relationship with Mr Dole, who is trying hard to appear serious and statesmanlike in his efforts to craft a budget compromise.

That looked no more likely *following House passage* by a surprisingly wide 277-151 margin of another bill keeping the government funded until December 5. The president promptly said he would veto it.

Although stripped of the provision increasing Medicare premiums that he cited in his first veto, the latest bill stipulates that the president and Congress commit themselves to balancing the budget in seven years and to do so using the more pessimistic projections of the Congressional Budget Office, which imply deeper cuts in social programmes.

Republican concessions were evident in other appropriations bills. The clause limiting lobbying by liberal groups was dropped from the treasury bill and Republican environmentalists were close to removing from the interior department bill an amendment opening up Alaskan *public* lands to *more* logging. But the foreign aid bill was still in stalemate following Senate rejection of anti-abortion language favoured by the House.

No time to quit budget barricades, Page 6

Gingrich: tactical error

Peronists resist 'blank cheque' on spending cuts

By David Pilling in Buenos Aires

Congressmen from Argentina's governing Peronist party are resisting pressure to grant President Carlos Menem emergency powers aimed at squeezing fresh spending cuts from the state bureaucracy.

Mr Menem, seeking to allay investor fears that budgetary targets for 1996 are unrealistic, wants discretionary authority to scrap or merge overlapping state bodies, to alter tax levels, and to push through privatisations without consulting Congress.

Mr Jorge Matzkin, head of the Peronist block of deputies, said Congress was not prepared to "issue a blank cheque". Last year congressmen resisted an attempt to grant Mr Domingo Cavallo, economy minister, equally sweeping powers.

Many congressmen suspect Mr Cavallo, whose political influence over Congress has worn thin after several bruising clashes, lies behind the new measure.

However, Mr Eduardo Bauzá, cabinet chief, yesterday denied that Peronists were squaring up to oppose the presidential initiative, saying congressmen from the party had agreed in principle to back the measure.

The 1996 budget is calculated on the basis of 5 per cent growth, a target considered grossly over-optimistic by most private-sector economists given few signs of Argentina shaking off the recession that has dogged it for most of the year.

In an interview with La Nación, the daily newspaper, Mr Ricardo Gutiérrez, finance secretary, said the second phase of state reform sought by Mr Menem would cut the costs of state bureaucracy by at least $500m excluding salaries. Total savings could be as much as $1.5bn.

Mr Raúl Buonhuome, political analyst at ING Barings, welcomed the package and said Mr Menem "seems to have regained the political initiative after several docile months". However, he added the cuts did not go far enough, given that government tax revenues for 1996 could fall short by up to $3bn.

Cuts, expected to involve dozens of state bodies, would affect the jobs of up to 20,000 state employees, a controversial move given already record levels of unemployment. The government has said it will pay for the retraining of sacked workers.

"In no way can the new state reforms be regarded as a fresh measure to reduce employment, just the opposite," said Mr Cavallo. "This is not a recessionary measure... What we want is to speed up the return to vigorous growth, which will create the greatest number of jobs."

Poor caught in budget row crossfire

Nancy Dunne on congressional plans to slash the Earned Income Tax Credit scheme

Six years ago Ms Jill Dotson of Silver Spring, Maryland, was a homeless crack addict. Now, at 38, she has kicked the habit, works full-time for a charity, and raises her four sons.

"I have walked a long road," she said of her climb back to solvency from the mean streets of Washington, DC. Her partner on the journey is government, which subsidises her housing – a two bedroom apartment – food, and childcare.

Ms Dotson earns $19,250 a year as a co-ordinator for a non-profit organisation which feeds and provides medical care to the poor. In Silver Spring, just outside Washington, this is just barely a living wage on which to support four children. The official US poverty line is $15,141 for a family of four.

Ms Dotson gets an additional $1,600 a year through the Earned Income Tax Credit, a scheme supported in the past by both Republicans and Democrats to make work more attractive than welfare and to offset regressive pension and sales taxes. Ms Dotson would work anyway, she says, but the tax credit enables her to buy clothes for her children and catch up on some unpaid bills.

The EITC was launched by President Richard Nixon. It was then expanded by Presidents Ronald Reagan and George Bush. But like other programmes for the poor, the Earned Income Tax Credit is being targeted for reduction by the budget-balancing Republican Congress.

Last weekend, as part of the budget reconciliation bill, which President Bill Clinton is expected to veto, a House-Senate conference committee agreed to slash $33bn from the programme over the next seven years.

At the same time the committee cut taxes for corporations and small business, the middle class and wealthy. It cut capital gains tax rates and gave a $500 tax credit for families earning up to $110,000 a year.

Poor working families will also benefit from the $500 a year tax credit, but, according to the Center on Budget and Policy Priorities, an advocacy group for the poor, half the families getting less than $30,000 a year would lose more from the EITC cuts than they would gain from the new tax credit.

Although Ms Dotson is typical of EITC recipients she is not the whole story. The tax credit has been the subject of widespread fraud and abuse. Because there is no gross income ceiling, families earning more than $30,000 a year – more than 15 per cent of the projected beneficiaries – have been able to reduce their taxable income to qualify for the credit.

However, the Treasury has been gradually improving enforcement and limiting the scope of the EITC. Advocates for the poor say only about 5 per cent of the reduction agreed by the House-Senate committee is intended to address error or fraud.

They say politicians have been nurturing hostility toward the poor for years, a tactic made all the more appealing by the fact that the middle class is increasingly hard-pressed. They say comments by Senator Phil Gramm, a Republican presidential candidate, are typical. He likes to urge those who have been "riding in the wagon on welfare to get out of the wagon and help the rest of us pull".

At the same time Mr Clinton has not pushed hard for poverty programmes.

Three years ago he convinced Congress to raise EITC payments and make it more widely available. But this was a plank of welfare reform which would make work more desirable. Mr Clinton also wants a welfare reform which would provide childcare, job training and education but would limit the time on the dole.

Under the current EITC, taxpayers with one child receive a $2,156 payment on taxable income between $6,340 and $11,630. For taxpayers with two or more children, the maximum credit for 1996 will be $3,560 for those with taxable incomes of $8,910-$11,630.

After the maximum income threshold is reached, payments are gradually scaled down and eliminated.

The phase-out procedure has been criticised as a work disincentive. For example, a family with taxable income between $11,630 and $17,000 loses about half to two-thirds of each additional dollar earned from working more hours. Supporters of the EITC say any type of assistance, even a bed at a city shelter, can be counted as a work disincentive.

For 1996, 20m families – 16m with children – were expected to receive the credits at a cost of $28bn. Sixty per cent was to go to families earning $20,000 or less.

Republicans have been able to make steep cuts in funding for the poor, pass on some funds to the states as block grants and claim that the poor will be better served by smaller, more efficient bureaucracies. This means many, like Ms Dotson, will face not only a smaller tax credit, but a cut-off of food stamps and lower childcare and rent subsidies.

Mr Clinton has said he will fight for retention of the tax credit. However, unlike education and healthcare, his other priorities, the EITC is not a middle-class programme, and the poor are notorious for failing to turn up to vote.

Californian justice system near breaking point

'Three-strikes' law in dock

By Christopher Parkes in Los Angeles

California's criminal justice system is rapidly approaching breaking point because of heavy burdens imposed by the state's trend-setting "three strikes and you're out" legislation.

Laws enacted 12 months ago after an overwhelming referendum vote in favour, which force courts to jail three-time felony offenders for 25 years to life, have cost Los Angeles County alone an extra $100m, and increased pressures on an already over-crowded prison system.

Delays in hearings of family and other civil cases have increased as administrators and judges have kept up "by robbing Peter to pay Paul", according to a report commissioned by the LA County government. "There is strong evidence... that we are quickly reaching the point of 'breaking' the system," the paper concluded.

Since enactment of the laws last year, the high-security population in county jails has risen from 36 per cent to 62 per cent of the total. Because of the new legislation's stipulation that three-strike felons must be held in jail while awaiting trial, offenders serving sentences for lesser crimes are being released early to make room.

Prisoners sentenced to a year behind bars are now typically being released after 10 weeks.

Other studies in less densely populated and less crime-ridden parts of California show similar trends. In San Mateo County, for example, only 13 per cent of court resources are now committed to family law, even though these cases comprise 45 per cent of the system's workload.

The reports, the first formal assessments of California's controversial but widely copied three-strikes legislation, tend to bear out early criticisms of a rapidly rising burden on already strained budgets and court systems.

According to the LA County study, the law will cost an extra $310m next year.

However, popular opinion still appears to be behind the legislation despite some early aberrations – a man was sentenced to 25 years for a robbery involving a slice of pizza – and an allegedly skewed impact on the black community.

Black leaders have complained, for example, of milder sentencing standards for people handling powder cocaine – a drug popular among white middle and upper classes – than for those dealing in crack.

Latest data show that in Los Angeles, where African Americans make up less than 10 per cent of the population, the ratio of blacks to non-blacks imprisoned under three strikes is 17 to one.

THE APEC SUMMIT: ■ US-China trade thaw ■ Free trade by 2020 agreed ■ Clinton stays home

Apec nations agree path to free trade in region by 2020

By Guy de Jonquières and William Dawkins in Osaka

Trade ministers from 18 Pacific rim governments yesterday cleared the final obstacles to an agreement to free all trade and investment in the region by 2020.

Despite the last-minute cancellation of US President Bill Clinton's trip to the summit on Sunday, members of the Asia Pacific Economic Co-operation forum reached a swift compromise on a 15-point "action agenda" for joint and individual liberalisation measures.

The agreement was acclaimed as a breakthrough by all the ministers. Mr Mickey Kantor, US trade representative, called it "a giant step", while Mr Roy MacLareo, Canada's trade minister, said the accord far exceeded expectations.

The plan, to be launched formally at the start of 1997, calls on Apec members, which together account for half of world trade, to open their markets by cutting tariffs, liberalising services, public procurement and investment, and harmonising industrial standards.

Ooe of the biggest stumbling blocks to yesterday's agreement was a dispute over US inability to guarantee free market access to China, whose Most Favoured Nation trade status must be renewed annually by Coogress.

The issue was defused, at least temporarily, by China's acceptance of a compromise joint text, which commits the US only to "endeavour" to apply non-discriminatory trade treatment to all its Apec trade partners.

The ministers also agreed to treat liberalisation of "sensitive" trade sectors in a "flexible" manner. Sucb sectors, which include agriculture and textiles, could be opened to competition only gradually, provided they were completely freed by the 2020 deadline.

This concession was drafted by Japan, the current Apec cbairman, wbose inability to guarantee to set a deadline for opening its rice market fully at one point threatened to scuttle the proposed agenda.

Although Japan's cautious approach to farm trade had annoyed the US, Canada and Australia, Mr MacLaren congratulated the Japanese government on skilful chairmanship and its "ability to knock heads together in a very courteous way".

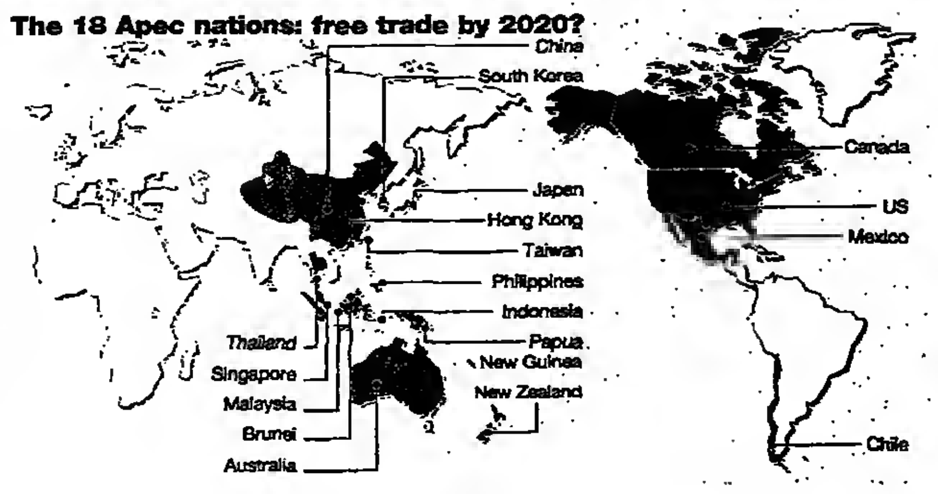
The other main hurdle was a difference over how to measure the speed of liberalisation by individual countries. The Apec ministers have set no firm timetables, but tacitly agreed that industrialised countries with more open markets need not move as fast as less developed and more closed economies.

The first test of Apec members' commitment to the action agenda, whicb mainly lays down principles and procedures, will be on Sunday, when each leader is due to announce the first steps his government is taking towards the free trade goal. Most are expected to go no further than publishing measures already announced or in force, though some may use the opportunity to unveil genuinely new plans.

The ministers agreed yesterday to meet again next year, to prepare for the ministerial conference of the World Trade Organisation in Singapore.

Canadian premier Jean Chrétien arrives in Japan yesterday for the summit with his wifa Aline Reuter

The 18 Apec nations: free trade by 2020?



No time for Clinton to quit budget barricades

Jurek Martin explains why the president had to stay at home

President Bill Clinton may hava pulled the plug on his trip to Japan rather late, less than two days before he was doe to depart, but pull it he was bound to given the relative weights of what is happening in Washington and the importance of his mission to Osaka and Tokyo.

Tha political calculation is straightforward. The president is engaged in a hodget battle with the Repuhlicans in Congress on which his own re-election may depend and which he is for the moment winning, as measured by the opinion polls and a series of legislative concessions dribbling out of Capitol Hill.

As he said in a TV interview on Wednesday night just before the White House announced the cancellation, "if people who work for the federal government aren't working and the people who need the services of our government aren't getting them, it's going to be difficult to see my way through taking this trip".

The partial government shutdown looks as though it will not end until next week at the earliest. Mr Clinton is also poised to veto the overall budget reconciliation bill the Republicans hope to complete by today, an act which, in the war for the public ear, would appear much less effective if done from Japan.

By contrast, neither the Apec meeting nor bilateral talks with the Japanese government, which now get Vice President Al Gore, have comparable importance. US officials have long privately conceded that the Osaka session, while useful, was essentially no more than a follow-up to the ground-breaking summit in Indonesia last year. Since then, trade has declined as a domestic US political issue.

Relations with Japan have been frayed by bruising trade disputes and most recently by the abduction and rape of a 12-year-old Japanese girl by three US servicemen now on trial in Okinawa. But Mr William Perry apologised fulsomely for that incident in Japan two weeks ago and Mr Gore can be expected to do the same.

The point is also made that Japanese prime ministers rarely travel overseas when the Diet is in session. Mr Tomiichi Murayama did not go the funeral of Mr Yitzhak Rabin, the slain Israeli prima minister, citing the pressures of parliamentary business.

Nor is this the first time a US president has abruptly put off a visit to Japan. Mr George Busb did so late in 1991 after a shock Senate by-election defeat in Pennsylvania during which he had been criticised for concentrating too much on foreign policy.

Mr Clinton may also be forced to cancel a visit due to start on November 28 to the UK, including Ulster, Ireland and Spain for an EU summit.

Any decision may be made late depending on events in the capital, hut Mr Clinton conceded this week that uncertainty existed wben he said he only "hoped" to be able to go.

There may be disappointment among Irish-Americans if Mr Clinton foregoes Ireland and Ulster, hut most generally support his initiatives to further the peace process.

Ireland's searcb for peace, Page 9

US and Japan move to smooth ruffled feathers

By William Dawkins and Guy de Jonquières in Osaka

The Japanese and US governments moved swiftly yesterday to smooth over any damage to their relations from the cancellation of President Bill Clinton's visit to Japan.

Japanese prime minister Tomiichi Murayama, who was due to meet Mr Clinton on Monday, after the Osaka summit, said the US leader's absence was "regrettable" but could not be helped, in view of the US budget deadlock.

Mr Ryutaro Hashimoto, president of the Liberal Democratic party, dominant member of the three-party ruling coalition, warned that the cancellation was "not good news at all for US-Japan relations".

But he went on to hope that Mr Murayama and Mr Al Gore, the US vice president, who will meet the Japanese leader in Mr Clinton's place, would hold "substantive talks to limit the adverse effect to a minimum".

Mr Gore is to attend a meeting of government leaders of the Asia Pacific Economic Co-operation forum on Sunday and meet the Japanese leader the same day. US-Japan security relations will, as previously planned, dominate the two leaders' agenda.

The US-Japan security pact is "the cornerstone of our Asian policy", said Mr Warren Christopher, US secretary of state.

US and Japanese officials firmly discounted, however, earlier suggestions by Mr William Perry, the US defence secretary, that Apec should be expanded to embrace regional security.

Mr Mickey Kantor, the US trade representative, said: "As we build our trade and economic relations, obviously you build stronger and stronger links between these countries."

That might even extend to bilateral talks on security, but there was no suggestion that Apec should become a forum for such talks, he said.

Mr Murayama plans to confirm with Mr Gore the establishment of a joint panel to review arrangements for the US military on the southern island of Okinawa, host to 26,000 of the 47,000 US troops in Japan.

Local resentment was stirred up in September by the rape of a local schoolgirl by three US servicemen. The incident triggered a wider national debate over the usefulness of the security alliance.

This has aroused serious concern among both governments, which believe the pact to be vital to stability in the east.

However, the US and Japan will shelve a joint declaration on security originally scheduled for the Clinton-Murayama summit, confirming their mutual support for the continued presence of 100,000 US troops in south-east Asia.

The declaration will be held over until their next meeting, expected early next year.

Legislation calls Nafta into question over jobs

By Nancy Dunne in Washington

Two prominent Democrats yesterday marked today's second anniversary of the passage of the North American Free Trade Agreement through Congress by introducing legislation that could lead the US to withdraw from the pact.

Congresswoman Marcy Kaptur and Senator Byron Dorgan claimed hundreds of thousands of jobs at hundreds of plants had been lost since Nafta's implementation. Their Nafta Accountability Act sets terms for the renegotiation of the pact linking the US, Canada and Mexico and prohibits the expansion of Nafta to other countries until specified conditions are met.

The legislation will not pass soon, if ever, but it is the latest example of the political heat generated by the Clinton administration's gamble on free trade. The president's backing for Nafta in defiance of his party's left wing, traditional supporters of the labour movement, is thought by many to have contributed to the Republican takeover of Congress.

As job losses have mounted, the administration has played down free trade domestically. Mr Robert Dole, the Senate majority leader and leading contender for the Republican presidential nomination, earlier this month criticised administration for planning "to rush into more free trade agreements". This virtually extinguished Chile's chance of joining Nafta before next year's elections.

The administration has tried to counter anti-Nafta rhetoric by releasing figures that show the pact has created 340,000 jobs. However, the US Labour Department has certified that more than 43,000 US workers have lost their jobs because of Nafta. A study issued yesterday by the Institute for Policy Studies said the second year of the pact had doubled the rate of Nafta-related layoffs.

"Nafta may be a winner for the chief executive officers of large mobile corporations, but the vast majority of people across North America feel like they are losers under free trade," said Ms Sarah Anderson, one of the co-authors of the report.

This year the US will run its highest ever trade deficit with Mexico – a projected $20bn. Its deficit with Canada could be almost as high.

Concern over the US trade deficit was reflected in a recent poll published by the Journal of Commerce. Thirty-seven per cent of the respondents blamed trade and overseas competition for the stagnation of industrial wages and almost 69 per cent approved of imposing tariffs on countries that have trade imbalances with the US.

EU lobbies curb farm products from east

By Lionel Barber in Brussels

Farm lobbies in France, Germany and the Mediterranean countries are blocking a British-led push to improve access to the European Union market for central and east European agriculture exports.

The dispute involves tiny increases in food imports from the east – in some cases as little as a few extra tonnes of Polish peppers or half a lorry load of Bulgarian jam – but has wider political significance.

"If we want to send a political signal to these countries that they should be preparing for the single market, we cannot say that they can't have have an increase (in quotas)," said a senior Brussels diplomat yesterday.

"Pathetic is almost too mild a word," he added.

The squabble over farm quotas stems from an EU pledge to the Czech Republic, Poland, Hungary, Slovakia, Bulgaria and Romania to raise the volume of farm import quotas between 1996 and 2000.

EU foreign ministers will discuss the issue in Brussels on Monday.

The European Commission, backed by Britain, Denmark, the Netherlands, and Sweden, proposed an annual 10 per cent increase.

However the Spanish presidency, under pressure from a French-led protectionist bloc, has come up with a compromise of 5 per cent a year, with exceptions.

British officials are particularly irritated that Germany, the leading advocate of EU enlargement to the east, has succumbed to pressure from its farm lobby and joined the French camp. Germany is backing a 5 per cent increase, albeit excluding live cattle imports.

Although the proposed quota volumes are small in areas such as Polish peppers, Czech duck meat, or Bulgarian jam, they are larger in beef, poultry, onions, and wheat.

But even these proposed increases would produce total eastern exports amounting to less than one per cent of overall EU consumption, according to UK officials.

Turkey to sign DM2bn hydroelectric project

By John Barham in Ankara

Turkey is to sign tomorrow its first build-operate-transfer infrastructure project after 10 years of negotiation with banks, contractors and foreign governments.

Mrs Tansu Ciller, the prime minister, will sign contracts initiating the DM2bn ($1.4bn) Birecik hydroelectric project, to be built on the Euphrates river in south-eastern Turkey by an international consortium led by Philipp Holzmann of Germany.

Turkey pioneered the concept of BOT financing for infrastructure projects in the 1980s, but bureaucratic delays and legal challenges have held up implementation. BOT projects require a private developer to secure financing and build a project, operating it long enough to repay its costs and generate a profit before transferring it to the government.

Government approval of the Birecik project is expected to accelerate approval of other long-delayed BOT projects. Britain's Thames Water and a group of Japanese companies are expected to sign a contract next month for a $715m water project for the city of Izmit.

A dozen other BOT projects, mostly in the power sector, are awaiting government approval.

Construction of the 672MW capacity Birecik dam is expected to take five and a half years. The private operating company will have 15 years to recoup its investment before turning the facility over to the government.

The consortium includes Alcatel Alsthom, the Franco-Belgian power engineering group, Strabag of Austria and Turkey's Gama Endustri construction group.

London-based Chase Investment Bank arranged the syndication process. More than 80 per cent of the financing will be provided by European governments' export credit agencies. The remaining DM400m will come from company equity and commercial bank loans.

Turkey must invest heavily in electricity. The government forecasts that demand will grow by 246 per cent over the next 15 years, requiring construction of 160 hydroelectric, thermal and nuclear power stations at a cost of about $50bn.

Energy analysts warn that private finance alone will not be sufficient to back more than a fraction of these projects, indicating that extensive privatisation as well as public sector funding will be required.

Corporate lawyers add that Birecik may not have entirely dispelled the legal confusion surrounding BOT projects. The constitution requires all concession-like contracts to be submitted to an administrative court and grants it jurisdiction over the project during its life.

Furthermore, Birecik's lenders have extracted substantial government guarantees insuring them against force majeure or default by the operating company.

The dam's tariff structure also guarantees the operator's profit. However, this has required close government involvement in every negotiating stage of the project, causing much of the delay.

هكذا من الأصل

S Korea speeds efforts to curb chaebol

Scandal prompts calls to loosen state-business ties, writes John Burton

The scandal over former President Roh Tae-woo's $650m political slush fund has given new impetus to efforts by the South Korean government to curb the growth of the country's leading conglomerates, or *chaebol*.

Prosecutors, who yesterday ordered the arrest of Mr Roh on corruption charges, alleged that the 30 top *chaebol* gave him money when president in return for gaining government contracts and other state favours.

The *chaebol* have expanded rapidly over the past 30 years through state patronage in Korea's centralised economy. The Daewoo and Dong-ah groups, which were singled out in the arrest warrant served on Mr Roh, are prime examples of this process.

Daewoo, which was established in 1967 as a textile trading company, rose to prominence in the 1970s when it took over state-owned shipbuilding, heavy machinery and car businesses with the support of then president Park Chung-hee.

When mounting losses in its shipbuilding operations threatened to bankrupt Daewoo in 1989, by which time it was Korea'a fourth-largest gronp, Mr Roh's government bailed it out with emergency loans.

Dong-ah has risen to become one of Korea's largest construction companies largely on the basis of government infrastructure contracts, including Seoul's ill-fated Songsu bridge, thet collapsed a year ago.

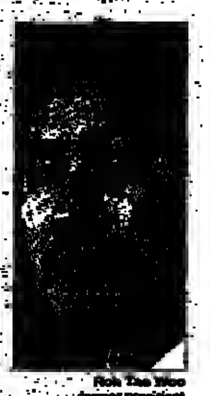
Government officials believe that the Roh scandal has underscored the need to break the close relationship between the state and business that has bred corruption.

Although the *chaebol* are largely creatures of state support, thay have turned into economic monsters, in the view of officials.

South Korea's top four chaebol

1994 figures	Sales (Won bn)	Net profits (Won bn)	Number of subsidiaries	Main businesses
SAMSUNG	51,880	1,387	55	electronics, shipbuilding, construction, vehicles
HYUNDAI	47,001	506	48	vehicles, construction, electronics, shipbuilding
LG	29,570	322	50	electronics, petrochemicals, consumer products
DAEWOO	20,557	339	22	vehicles, electronics, shipbuilding, construction

Source: Company reports


Roh Tae Woo: former president

Sales by the 30 biggest *chaebol* are equivalent to 75 per cent of gross domestic product, although they employ only a small percentage of the population.

The government has tried to rein in the *chaebol* since the 1980s, but without much success. Attempts include limiting bank loans to the groups, while using financial incentives to encourage them to focus on cora industries instead of relentlessly expanding into new businesses. Officials have also vainly sought to reduce the influence of family owners that founded them.

In spite of promises to slim operations and improve efficiency, the *chaebol* are adding new activities to their long list of businesses. In the first half of 1995 alone, the number of subsidiaries among the leading *chaebol* increased from 623 to 647, according to government's fair trade commission. Family owners have also been tightening their control over the groups instead of reducing their shareholdings.

Government anxiety that an aggressive push for *chaebol* reform would disrupt Korea's economic performance has been the main reason for the programme's failure.

The Roh scandal, however, "has provided a unique opportunity to set straight the links between business and government. Anger over the scandal is likely to increase public willingness to accept some economic setback if *chaebol* reform promotes more balanced industrial development," said Mr Edward Kim, a vice-president with Ssangyong Securities.

Political factors also support new efforts at *chaebol* reform. Tha administration of President Kim Young-sam, which has been damaged by the scandal, is hoping to regain some popular support in curbing the *chaebol* because of deep public resentment about their power.

Mr Lee Hong-koo, the prime minister, has announced that the government will, by the end of the month, prepare new measures to restrict the *chaebol*. These include the end of state-subsidised low-interest loans that supported the *chaebol* and tougher application of anti-monoply and fair trade rules.

The government is also considering imposing steeper inheritence taxes on family owners to weaken their management control. And new accounting standards would prevent *chaebol* from hiding money from tax anthorities.

Paradoxically, efforts to limit the *chaebol* may delay other aspects of the government's aconomic deregulation programme because they could benefit the groups. The privatisation programme, for instance, is being slowed as officials try to prevent the *chaebol* from using the process to add state companies to their sprawling domains.

Officials have expressed concern that financial liberalisation and greater corporate access to foreign capital markets will deprive the government of the means to keep the *chaebol* under control. Restrictions on *chaebol* overseas investments were recently introduced to prevent them from escaping supervision.

"The existence of the *chaebol* poses a problem for the government because rapid liberalisation could allow them to monopolise economic resources. We cannot allow the big fish to devour the small ones," said Mr Chung Duck-koo, a senior official at the finance ministry.

Japan's trade surplus down 42% in October

By Gerard Baker in Tokyo

Japan's trade surplus registered one of its sharpest ever monthly falls in October, the strongest evidence yet that the country's chronic external surpluses have at last begun to shrink.

The customs cleared surplus fell by 42.4 per cent last month from a year earlier to a seasonally adjusted $4.8bn, helped lower by a surge in imports, which grew by 17.8 per cent. The decline was the largest since April 1990, excluding a 51 per cent fall in January this year, an exceptional figure caused by disruption from the Kobe earthquake. Exports crept up by just 1.7 per cent with a sharp fall in sales to the US and Europe offset by continuing strong demand in Asia.

The surplus has now been in a pronounced downward trend for more than a year. In the last three months the average unadjusted monthly surplus was $7.5bn, compared with $9.1bn in the same period last year. In yen terms the decline has been even sharper.

The main reason for the fall was a sharp rise in the value of the yen in the two years to this April, when the currency rose in value against the dollar by more than 25 per cent, raising the price of exports and making imports cheaper.

A big increase in car imports from the US was one of the principal factors in last month's steep fall. The Japanese bought 122 per cent more imported vehicles from the US in October than in the same month a year earlier. There were also hefty increases in purchases of semiconductors and computers. Overall, imports from the US grew by 21.4 per cent.

At the same time, weakening demand in north America depressed Japanese exports there. Car sales dropped by 22 per cent, producing an overall drop in exports to the US in volume terms of 14.7 per cent. Japan's total trade surplus with the US fell by 44.2 per cent to $2.7bn.

Government officials were upbeat about the figures. The big trade surplus has long been a source of friction in international economic diplomacy and has contributed to instability in global currency markets.

There was some concern that the decline might not prove sustainable in the wake of the yen's decline against the dollar in the last three months. But there are some signs there have been structural shifts that may prove durable.

The exodus of Japanese manufacturers overseas has resulted in substantial increases in imports from those companies' foreign operations. Last month that trend was graphically demonstrated with a big increase in imports of cars made in the US by Japanese manufacturers.

Australian talks fail to halt strikes

By Nikki Tait in Sydney

Eleventh-hour talks between CRA, the Australian mining group, and unions in Melbourne last night failed to avert one of the most potentially damaging bouts of industrial action faced by Australia for many years.

The Australian Council of Trade Unions is at loggerheads with the company over collective bargaining rights and its determination to move staff on to individual contracts.

Talks, which followed the intervention of Mr Paul Keating, Australia's prime minister, broke up at 3am local time today, with the two sides saying they would meet again this afternoon. But even if a deal is reached, it will come too late to prevent a national dock strike. The five-day stoppage was due to start at midnight yesterday, although some workers had walked out earlier in the day.

The ACTU has also threatened to shut down the country's coal mines next week, and spread the strike to other industrial sectors.

Mr Keating said yesterday that he had talked to both the ACTU and Mr Leon Davis, CRA's chief executive, on Wednesday night. Shortly before leaving for the Asia-Pacific Economic Forum meeting in Osaka yesterday, he expressed confidence that the main issues in the dispute could be settled.

But after the talks were adjourned, CRA representatives said that the ACTU had introduced new issues, which went beyond the dispute which lies at the heart of battle.

The ACTU said the sticking points had "revolved around those basic principles we've been stressing all along – equal pay for work of equal value and non-discrimination among workers".

Wealth brings no joy to Japanese

By Michiyo Nakamoto in Tokyo

Japan has achieved spectacular economic success that is the envy of many countries, but material prosperity has not made its people very happy, according to a government report this week.

The 1995 Economic Planning Agency's Annual Report on National Life found that while per capita income in Japan had risen eightfold since before the war, surpassing that of the UK in 1972 and of the US in 1987, Japanese are not as happy with their lives as people in many other industrialised countries.

"There is an unavoidable feeling that although Japan has succeeded economically, it may not have done so well in terms of living conditions," the report said.

The wide gap between prices in Japan and the US has meant that although the Japanese earn some of the world's highest incomes, their purchasing power is below that of workers in the US and Germany.

The country's living standard, taking the prices gap into consideration, is about two-thirds that in the US and trails behind Hong Kong, the UK, Germany and France.

Housing floor space per person is among the smallest in industrialised countries and the gap between income and housing costs has continued to widen, despite a fall in property prices.

Many Japanese social arrangements have not been able to keep up with changes in attitude that have become increasingly conspicuous among the younger generation. In particular, a more flexible working environment that allows for greater mobility of the workforce and greater individuality is required, the report states.

HK chief justice causes stir on rights

Sir Ti-liang Yang, Hong Kong's chief justice, will himself be on public trial today when he delivers to the Hong Kong government his "considered" view of the colony's Bill of Rights.

To Sir T L's great embarrassment, his misgivings about this law – which, against China's wishes, was enacted in 1991 and underpins civil liberties in Hong Kong – were exposed this week by a senior Chinese government official.

Mr Zhang Jun Sheng, deputy director of Xinhua, China's *de facto* mission in Hong Kong, revealed them when attempting to demonstrate that not everyone in Hong Kong supported the rights law. He said Sir T L had told a private dinner that the bill "undermined Hong Kong's legal system".

In an effort to salvage his position he took up a suggestion by Mrs Anson Chan, chief secretary, that he submit a written explanation of his views. No matter what he writes it is bound to provoke a reaction.

This, the latest row accompanying the handover of Hong Kong to China, began six weeks ago when the Preliminary Working Committee (PWC), China's chief advisers on Hong Kong affairs, recommended that the rights law should be changed and amendments to six security and broadcasting laws disallowed.

By exposing divisions at the highest level of Hong Kong's judiciary, Mr Zhang's intervention skilfully shifted the debate, which China was losing, away from Beijing's plans to water down the law towards the more uncertain terrain of the law's ambit and the judiciary's support for it. In so doing, however, China has risked undermining the very institution in which business needs to have confidence – an impartial judiciary – if Hong Kong's reversion to China is to be successful.

Governor Chris Patten, in a pugnacious questions session yesterday in the colony's Legislative Council, said that if China adopted the PWC's recommendations it would be in breach of its own Basic Law for Hong Kong, which states that United Nations human rights covenants would apply. He also suggested that Britain might have to take such action to the UN, where the 1984 Joint Declaration is registered.

"It's awful, it's a mess," said Mr Martin Lee, chairman of the Democratic party, the largest group in LegCo.

Mr Lee, who is a Queen's Counsel, said Sir T L had broken a long observed judicial convention that senior judges were not meant to make public their views about politically controversial issues. He had laid himself open to attack and compromised the independence of his court, a matter "so basic to a judge being respected in court", he said.

Mr Nihal Jayawickrama, an expert in constitutional law at Hong Kong University and a former attorney general for Sri Lanka, went further. Sir T L – who is rumoured to harbour ambitions of becoming the first chief executive of Hong Kong, as the post-colonial governor will be known – appeared to have taken sides in a sensitive political debate and displayed "conduct unbecoming of a judge".

"This was meant to be one of the strengths of the Hong Kong system, compared with China: a competent, impartial judiciary that was separate and distinct from the executive and the legislature," Mr Jayawickrama said.

Ms Margaret Ng, representative of the legal profession in LegCo, said: "What was wrong was not that he was critical of the law and not because he made a comment, but because of the time and place," she said. "A lady does not put herself in a compromising position and neither should a judge."

Simon Holberton

ASIA-PACIFIC NEWS DIGEST

China assures region on arms

China said yesterday in its first white paper on disarmament that it was committed to peace, would station no troops on foreign soil and had no plans to increase defence spending unless its security was threatened. The State Council, or cabinet, issued the landmark document on arms control and disarmament to dismiss allegations abroad that China's People's Liberation Army, the largest military on earth, was a threat to peace.

"It uses the facts to prove that the Chinese people love peace, and to refute the false 'theory of China threat' spread by some people overseas," said the official Xinhua news agency, which released the paper. China promoted the careful export of weapons with a view to maintaining peace, slashed the world's largest army by nearly 25 per cent to 3.1m in the late 1980s and converted two thirds of military industries to civilian output, it said.

Military analysts said the paper appeared aimed at easing fears in the region that China's claims to the Spratly islands in the South China Sea, backed by naval patrols, heralded a more assertive approach in Asia. It may also mark a move by military officers, anxious at what they perceive as western attempts to contain modernisation of the world's largest standing army, to present a more open and co-operative face, they added. *Reuter, Beijing*

HK-Beijing rail link complete

China laid the last few metres of track yesterday to complete its most costly railway, linking the capital, Beijing, with Hong Kong, which reverts to Chinese control in mid-1997. The joining of the track running from Beijing with the line snaking north from Hong Kong's Kowloon district took place near the Guangdong town of Longzhou.

After rail workers had laid the last track, Premier Li Peng hailed the achievement in a ceremony held in the Yangtze river town of Jiujiang, on the provincial border between central Jiangxi and Hunan. The railway runs a total of 2,356km (1,414 miles), has 1,045 bridges and 150 tunnels and cost Yn40bn ($4.8bn) to build, making it the largest rail investment in China, state television said. *Reuter, Beijing*

Keidanren donation to LDP

The Keidanren, Japan's powerful federation of economic organisations, yesterday promised the right-wing Liberal Democratic party (LDP) Y10bn ($100m) in political donations over five years. The funds would help the party, biggest member of the ruling coalition, to repay a loan of the same amount that it took out in 1993 from commercial banks to finance its general election campaign that year, Keidanren officials said.

During a meeting with party executives Mr Shoichiro Toyoda, Keidanren chairman, was said to have suggested that the business group wants the LDP to exert its political power to abolish a landholding tax and implement other tax system changes. "We have asked the government to implement tax system changes, and I want the Liberal Democratic party to exert its leadership further," Mr Toyoda said. *Kyodo, Tokyo*

US lifts JAL air servicing ban

The US Federal Aviation Administration yesterday gave the green light to Japan Airlines to resume servicing US aircraft, ending a three-month-old ban, JAL officials said. In August the FAA prohibited JAL from acting as servicing agent, saying its inspections found that JAL's servicing facilities and work quality did not meet FAA safety standards.

The FAA gave the go-ahead to JAL facilities at Tokyo's Narita and Haneda airports saying some improvements have been made. The ban was lifted after JAL improved the documents to be submitted to the US government agency. The FAA said the documents had been incomplete. One of the shortcomings cited by the FAA was that JAL used a subcontractor not authorised by the agency. *Kyodo, Tokyo*

Indian bank service under fire

Mr Manmohan Singh, the Indian finance minister, has called on domestic banks to improve customer service, suggesting regular bank ratings and an ombudsman system. The finance ministry said yesterday he had told a ministerial committee there was need for increased competitiveness in domestic banking to help create an environment for greater efficiency and improved service.

India's banking sector, dominated by state-owned banks, has been opened up to the private sector since 1991 when the government began reforms to liberalise the economy. The sector is seeing a wave of foreign investment, with overseas banks and investment companies setting up joint ventures with Indian partners. *Reuter, New Delhi*

Indonesia claims Islamic plot

Indonesian authorities have arrested 300 people for alleged involvement in a plot to establish an Islamic state in the country, an army officer said yesterday. He said they were arrested in Central Java last month. "They were preying on week-minded Moslems, luring them to establish an Indonesian Islamic state," he said from the Central Jave capital of Semarang, 544 km east of the capital Jakarta. Those detained had travelled as traders to spread their teachings and recruit members for the organisation, which was said to have links with the banned Communist party. Nearly 90 per cent of Indonesia's 190m people are Moslems. *AP, Jakarta*

Almost 1,000 workers walk out after union officials reject company's 'final offer'

Strikes erupt at two Ford factories

By Andrew Bolger and John Griffiths

The UK subsidiary of the US carmaker Ford lost production of 800 of its newly launched Fiesta cars and 60 Transit vans yesterday after an unofficial strike by workers at two plants in protest at a pay offer.

Almost 1,000 workers at the company's Dagenham assembly plant in east London and 200 at the Southampton factory on the south coast of England walked out after union leaders had rejected the offer, which Ford said was "final". Production of the Fiestas was lost because of the strike by day workers at Dagenham, where the night shift was expected to take similar action. Production of the Transit vans was lost at Southampton when day-shift workers walked out after lunch.

Yesterday's action came on the same day that a substantially new version of the Dagenham-built Fiesta went on sale in the UK.

Ford said its dealers had enough stocks to launch the car, but the 800 vehicles lost by yesterday's walk-out are likely to worsen showroom shortages which are already arising as a result of production hitches.

Difficulties with engine installation and other problems have meant that Dagenham for the past few weeks has been producing only 800 new Fiesta cars and vans a day compared with a scheduled 1,100 - the plant's full capacity.

The importance of the Fiesta to Ford could, in theory, increase the workforce's leverage over management in the pay negotiations. Dagenham is Ford's "lead" plant for Fiesta production in Europe, producing 193,000 last year including vans, for which it is the sole source of supply to all of western Europe.

However, Ford last night was showing no sign of the sabre-rattling tactic it has used in past disputes, when it implied that output might be shifted to Cologne or Valencia where Fiestas are also built. Executives acknowledge that productivity and quality improvements, combined with low UK labour rates and overheads, have made such threats increasingly implausible.

Ford's other main UK car plant, at Halewood in north-west England, is also producing only about 800 Escort cars and vans a week compared with capacity for 1,100. However, the production cuts are caused by slumping demand in the UK new vehicle market.

Unlike Dagenham, which exports 35 per cent of its output, Halewood production is almost entirely for the UK.

Ford said it was disappointed with the walkouts and urged workers at both plants to return to normal working today.

New chief may increase $4.4bn offer to Names

By Ralph Atkins, Insurance Correspondent

Mr Ron Sandler, the new chief executive of the Lloyd's of London insurance market, yesterday held out the prospect of a £2.8bn ($4.4bn) settlement offer to litigating Names being increased.

Speaking the day after Mr Peter Middleton quit as chief executive of Lloyd's, Mr Sandler said he was keen on "building relationships" with lossmaking Names. Mr Middleton was widely seen as a champion of Names' – individuals whose assets have traditionally supported the insurance market.

But Mr Sandler, who will take over Mr Middleton's role as a link with litigating Names, said Lloyd's remained conscious of "the scale of the financial suffering, the tragedies that many Names have suffered."

His remarks came as Names' representatives signalled that Mr Middleton's departure may make little difference to settlement talks. Mr Michael Deeny, chairman of the Gooda Walker action group, said: "We will settle if the terms are right. The personalities are not the key issue. The key issues are the numbers."

Ron Sandler: rift denied

LLOYD'S
LLOYD'S OF LONDON

Mr Sandler said Lloyd's recovery plan was "on track" and would be implemented as scheduled next year. Besides the settlement offer, the plan also involves setting up Equitas, a large reinsurance company intended to take responsibility for billions of pounds of outstanding liabilities.

Asked about the settlement offer, Mr Sandler said: "We are doing everything we can to maximise the size of the 'pot'." Mr Sandler said in an interview that he had been "stunned" by Mr Middleton's decision when told last Friday. "It caught me entirely by surprise." Moreover, he agreed that Mr Middleton's departure – six months before Lloyd's recovery plan is due to be completed – was damaging.

"It certainly can't help. But because the management of Lloyd's involves such a high degree of team work...I think the damage can quite effectively be limited."

Mr Sandler's efforts so far to secure a settlement with Names, working with Mr Middleton, earned him plaudits yesterday from those at the market who disliked Mr Middleton's brasher, less discreet style which did not always yield results. "Everyone fell for Sandler because he gets on with things and organises everything," said one council member. "Everyone has typed sheets after meetings saying what they had to do...Middleton would turn up at meetings with a can of Coke and an ashtray."

Once some stability has returned to Lloyd's, Mr Sandler – who has a MBA from Stamford and a first class Cambridge degree in engineering – is anxious to see a swift reallocation of Mr Middleton's responsibilities. Thereafter he aims to concentrate his efforts on "building the relationships and establish the necessary understandings" with action groups representing litigating Names.

Ex-monk made enemies

By Our Insurance Correspondent

On the Richter scale of upheavals at the Lloyd's of London insurance market, the sudden departure on Wednesday night of Mr Peter Middleton rated high.

Mr Middleton, the market's chief executive, was playing a central role in implementing its recovery plan. He was negotiating terms of an out-of-court settlement with lossmaking and embittered Names, individuals whose assets have traditionally supported Lloyd's.

His departure was also awkwardly timed. Parts of the recovery programme have slipped. Plans had to be abandoned to give indications last month of the cost of Equitas – a giant reinsurance company which, under the recovery plan, should take over heavy liabilities outstanding on old insurance policies.

With such delays fraying nerves at Lloyd's, the departure of the chief executive hardly looks good. But a convincing case can be put forward to explain why Mr Middleton wanted to leave: Salomon Brothers offered him a senior job that possibly pays a salary running into seven figures.

Mr Peter Middleton is to be chief executive of European operations at Salomon Brothers and a member of the bank's management board. He will succeed Mr Rod Berens, who was appointed European chief executive on October 1 as well as head of equities for Salomon globally. It is common for investment bankers to combine management and trading roles.

Unlike Mr Berens, or his predecessor Mr Stephen Posford, who acted as European chief executive while continuing to trade using Salomon's capital, Mr Middleton will devote all his time to managing Salomon's European arm.

He will not serve on the five-man operating committee in New York at the heart of global management.

Moreover, Mr Middleton expected to leave Lloyd's in the relatively near future, albeit once the recovery plan had been implemented next spring. After working as a diplomat, Mr Middleton's career has seen moves every few years: he was at Midland Bank between 1985 and 1987 and at Thomas Cook group between 1988 and 1992.

Mr Middleton said Lloyd's management team remained strong, praising Mr Ron Sandler, his successor as chief executive. The recovery plan was on course, Mr Middleton argued: "The mood of the membership is that they want a settlement, they want an end to the disputes."

But Mr Middleton had created enemies and simmering resentment which his departure may now relieve. Reports of a rift between Mr Middleton – a gruff, football-supporting ex-monk – and Mr David Rowland, Lloyd's chairman, were probably exaggerated. Mr Middleton said his association with Mr Rowland "has been the most rewarding business experience of my career".

But Mr Middleton certainly caused upsets among working members of Lloyd's. He was regarded as too friendly to embittered Names, many of whom are regarded with contempt by those trying to keep Lloyd's in business in a competitive market. His patience with angry Names'. action group leaders frustrated many of those most closely involved in Lloyd's recovery plan.

UK NEWS DIGEST

Mobile phone users' European 'roaming' limited

A monthly call charge limit of £50 ($78.50) is being imposed on some UK mobile telephone users in an effort to cut down on fraud. Subscribers are being told that the new limit can be extended only if they lodge deposits in advance with their service provider, the organisation responsible for managing and billing mobile phone users. Customers who want to "roam" in mainland Europe with their digital phones will only be able to do so by paying a deposit of £100.

Cellphones Direct, a London-based service provider dealing principally with the Vodafone service, has been writing to customers to say it will introduce call charge limits on all its phones from February 1 1996. One angry customer who had used his phone satisfactorily in Britain and elsewhere said yesterday: "I bought this phone specifically to be able to use it abroad and now they want more money for the privilege". The issue shows that the industry has still failed to convey to customers the real costs of using mobile phones or the risks both to customers and service providers of fraud. *Alan Cane*

Murdoch closes tabloid paper

Mr Rupert Murdoch, chairman of News Corporation, is to close Today, the only one of his five UK national newspapers with a left-of-centre political stance. This morning's issue of the tabloid paper – launched by Mr Eddy Shah in March 1986, and owned for a time by Lonrho, the international trading group, before being bought by Mr Murdoch in July 1987 – will be the last.

The company said it deeply regretted the decision to cease publication, "but with a modest circulation, insufficient growth and rapidly rising costs we have no alternative." It said "scores of millions of pounds" had been poured into the paper for editorial and promotion over the past eight years "without the necessary result." The rapid rise in newsprint costs – up by 50 per cent in a year – was a major factor behind the closure decision. *Raymond Snoddy*

British Steel set for savings

British Steel is to save between £50m and £150m ($78.5m-$235.5m) by deferring for up to nine years the rebuilding and relining of Britain's biggest blast furnace. The blast furnace at the Redcar site of the company's Teesside works, rebuilt and relined in 1986 at a cost of £50m, was to have undergone the same procedure after a decade, during which it had been scheduled to produce 30m tonnes of iron. The major overhaul, which in 1986 took 135 days of round the clock working, would also have meant costly stockpiling in advance of semi-finished blooms and slabs at the works, to satisfy customers' needs during the shutdown.

But the company says the furnace is performing so efficiently it is deferring the next rebuilding and relining from 1996 until the year 2000, and possibly 2005. *Chris Tighe*

New code for foreign students

University vice-chancellors yesterday produced a code of conduct to tighten higher education's treatment of foreign students. The market generates at least £1bn ($1.57bn) annually.

The move follows growing concern that universities are marketing themselves too aggressively to foreign students, particularly in south-east Asia, and that standards have been allowed to fall in related campuses and franchised colleges set up in foreign countries.

Copies of the code will be distributed to potential students by the British Council, while all universities will be required to implement its requirements as soon as possible. The code includes tight restrictions on advertising claims, and acceptable standards for applications and admissions, including tests on English language proficiency. *John Authers*

Codebreaking machine sold: A coding machine used by the German military to transmit military secrets throughout the Second World War was sold to a German businessman yesterday for £10,780 ($16,924). London-based Reinhold Meinen outbid dealers and other collectors to purchase the Enigma machine at Phillips' saleroom in New Bond Street, London.

Bank pays high-tech staff an extra 20%

By Andrew Bolger, Employment Correspondent

Abbey National, the UK bank, has been compelled tn pay many of its highly trained information technology (IT) staff extra wage increases of up to 20 per cent in an effort tn prevent tbem helog recruited by other companies facing skill shortages.

The pay improvements that in snme cases amount to £5,000 ($7,850) are in addition to the increases secnred through the home lnan and banking group's performance-related pay system. All 600 members of Abbey National's IT diviston were covered by the pay review. Most of them are based in Milton Keynes, about 80km north of Londnn, where the group has its main compnter centre. Not all staff received an increase, but most employees were given rises of 3 to 5 per cent.

The agreement to boost IT staff pay was taken by Abbey National tn hring earnings into line with other employers and so retain their competitive advantage in an increasingly tight labour market.

Abbey National said: "We did find that a lot of people were leaving. There is large number nf IT employers in the Milton Keynes area, and we obviously have to ensnre that we are paying market rates."

Mr Alistair Hatchett of Income Data Services, the independent pay monitoring body, said Information technology was an area of the econnmy wbere skills shortages were sbnwing up.

"There has been a very big expansion in the most skilled software work - and training has not kept up with the pace of development," he said.

"Many companies have kept IT staff at arms-length, on contracts - which means they are able to move on easily. More companies should be trying to bind them in hy nffering good pensinns and cars."

Mr Graham Williams, a consultant with ibe IT recruitment company Executive Recrnitment Services, said that in the last six months, skill shortages bad forced employers to increase salaries in all part of the country - not just the sonth-east.

"People with bigh-value, high-demand skills have had a number of emplnyers chasing after them," he said.

● Chemical Bank of the US is to close its office in Cardiff, Wales, witb tbe loss nf 276 jobs as a result of its merger with Cbase Manbattan. Its work of processing cnstody, derivatives and fnreign exchange bnsiness will he principally transferred to Cbase's offices in Bournemonth, Dorset.

Cardiff had hcen likely to suffer as a result of the merger, to be completed early in the naw year, because Chase's Bournemontb offices have the capacity to handle the back-office work of both hanks. Mr Mark Garvin, Chemical's UK manager, said: "We must emphasise this is a strategic decision based on comparative system capacity and merger requirements. In no way does it reflect on the quality of our staff in Cardiff."

Chemical has been based for 13 years in the Welsh capital, where it has been one of the most significant foreign investments in the financial services sector.

Worldwide, the merger is expected to cost 12,000 jobs.

The economy Sagging dollar weakens sterling ■ Rate of inflation in retail prices falls from 3.9% to 3.2%

Calm slide of the pound confounds the pundits

Sterling fell to an all-time low on a trade-weighted basis earlier this week, and came within a whisker of its historic low against the D-Mark.

The surprise is that while that may look like the ingredients of an all-too-familiar sterling crisis, it does not feel like one. The siren headlines have been absent, the chancellor has not had to defend the indefensihle from the Treasury steps, and far from predicting higher interest rates to defend the currency, financial markets are expecting an easing of monetary policy.

Fierce competition among insurance companies, causing a steep rednction in insurance premiums, helped push the headline annual rate of inflation last month to its lowest level since last December. The Central Statistical Office said yesterday that the overall retail prices index fell 0.5 per cent between September and October, taking the annual rate of retail price inflation to 3.2 per cent from 3.9 per cent in September. This was the biggest fall in the annual headline rate since January 1993. The monthly fall was the higgest for an October since 1944. Inflation in the service sector was particularly subdned, helped partly by early price cutting ahead of Christmas. The annual rate of increase in the price of services fell to 2.1 per cent last month, the lowest annual rate since August 1986.

The improvement in inflation was greater than economists expected. But some said that mnch of the decline was confined to a few areas which could not be relied on to deliver similar falls in coming months. A sharp fall in housing costs, a decline in house prices and a fall in the premium charged on house insurance contributed most to the decline in the headline rate. A fall in the cost of car insurance and other motoring costs – and a sharp fall in seasonal food prices – also exerted downward pressure on overall inflation.

Most analysts confess to being unexcited by sterling's current level, while others are simply baffled. Mr Michael Hart, manager of The Foreign & Colonial Investment Trust in London, says: "It certainly doesn't feel as if it's at an all-time low, or that there will be a terrific run on it."

Some of this is easily explained. First, sterling's value against the dollar has been very stable – it has barely moved out of tha $1.55 to $1.60 range all year. Against the yen its value is also virtually unchanged, at Y157.

Mr Richard Jeffrey, economist at Charterhouse Tilney Securities in London, adds: "The sanguine view is that whatever is going on in the currency markets is not a reflection of the operation of *policies in the UK, or the performance of the economy.*"

While these factors explain the relative lack of concern about sterling's weakness, they do not explain wby it is weak. The main reason is the poor performance of the dollar, which hit record lows against the yen and D-Mark earlier this year. It has rallied against the yen, but continues to languish against the D-Mark.

Mr Paul Chertkow, head of global currency research at UBS in London, says the correlation between movements in *sterling/D-Mark* and dollar/D-Mark was 94 per ceot in the first 10 months of the year. Over the past 25 years this has been closer to 40 per cent.

Analysts struggled to find an explanation for sterling performing as a dollar-based currency, rather than in its traditional mode, equally influenced by both dollar and D-Mark.

But Mr Brendan Brown, head of research at Mitsubishi Finance International in London, suggests two reasons for the recent weakness. The first is markat fears that in the approach to the next general election the government will succumb to the temptation of pump-priming the economy.

The second is sterling's lack of appeal to international investors. Mr Brown says that in the past three years it has behaved like the Italian lira, without the returns. Ten-year Italian government bonds are yielding 11.63 per cent, while similar dated gilts yield only 7.86 per cent.

Over and above these factors, the nearest cause of sterling's weakness can be found in tha market view that Mr Kenneth Clarke, the chancellor, may produce both a stimulatory Budget, and a cut in interest rates.

Mr Chris Turner, currency strategist at Barclays de Zoete Wedd in London, says that it is a common pattern for sterling to weaken in the weeks leading up to the Budget, but then to firm afterwards.

There is a good chance of this being repeated if the Budget is well received, with any spending cnts credibly financed and the falling trend in the public sector borrowing requirement left intact.

In the meantime, sterling weakness may be the factor which prevents another cut in interest rates. At one level it lacks the importance it once bad. As Mr Jeffrey says: "Mr Nigel Lawson [the former chancellor] once referred to the currency as the barometer of policy. Following that it hecame the ohject of policy [when sterling was in tbe ERM]. Now it plays a much less important role."

But currency weakness can fuel inflationary pressures. The Bank of England has acknowledged that it watches the trade weighted index, which has fallen hy about 10 per cent since the beginning of last year. Using the old "four to one" rule, whereby a 4 per cent move in the trade weighted index equates to a 1 per cent move in interest rates, the fall in the index more than offsets the tightening in monetary policy, which has taken the base rate to 6.75 per cent from a low of 5.25 per cent.

Few would bet against further sterling weakness ahead of the November 28 Budget. But Washington's budget may prove of more importance to the pound than anything emanating from Westminster.

Philip Gawith

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NEWS: IRISH PEACE IN THE BALANCE

Contacts between John Hume, the voice of mainstream constitutional nationalism, and Gerry Adams of Sinn Féin led to the Downing Street declaration by the British and Irish governments almost two years ago. Paramilitary ceasefires followed at the end of last summer. Since then, the path to a peaceful settlement in Northern Ireland has been complicated and uncertain

Premiers may meet before Clinton visit

By John Kampfner in London, Jurek Martin in Washington and John Murray Brown in Dublin

A summit meeting of the British and Irish prime ministers may be held next week ahead of a planned visit to the region by President Bill Clinton at the end of the month.

Diplomats in London and Washington said difficulties over the US budget might force a curtailment of Mr Clinton's trip to London, Belfast, Londonderry and Dublin, but that strenuous efforts would be made to avoid its cancellation. No final decision on the visit is expected before the middle of next week.

But it appeared likely that the first day's events in London, which coincide with the British budget on November 28, might be abandoned. The final two legs of the trip might also be effected, with Mr Clinton spending a day less than envisaged in Dublin and not going as scheduled to join heads of European Union governments at their conference in Madrid.

US officials said Mr Clinton was eager to go ahead with the trip. Diary commitments in 1996, an election year, would make it difficult for him to find several days for talks on the Northern Ireland crisis, which has become one of his top foreign affairs priorities.

But the officials denied suggestions that lack of progress in the peace process was a factor in White House thinking. All governments concerned have sought to play down expectations of a substantial political initiative from Mr Clinton during his visit.

After several weeks of apparent impasse, culminating in an uncompromising speech last Saturday in London by Mr John Bruton, prime minister of the Republic of Ireland, both governments appear to be co-ordinating strategy more effectively again. Officials said Mr John Major, the British premier, would write to Mr Bruton within a few days with "minor modifications" in the British approach designed to kickstart both governments' "twin-track" approach.

The strategy involves preliminary political talks alongside the start of a US-led commission on weapons and other issues. Meanwhile, Mr Major continued his consultations with Northern Ireland's party leaders with a meeting at Downing Street with Mr David Trimble of the Ulster Unionists.

The two discussed the Unionists' proposal for an assembly, or convention, for the province. But Mr Trimble emerged from their 75-minute meeting saying he was not optimistic about the prospects of an immediate breakthrough.

The sharp and unexpected criticism of British policy last weekend by Mr Bruton was a calculated attempt to galvanise London into a rethink after weeks of frustration, say ministers and senior officials in the republic.

Underlying his apparent policy shift on paramilitary weapons is a sense of frustration by all parties in Dublin at what they see as Britain's failure to comprehend the thinking of the nationalist Sinn Féin party. Sinn Féin is the political wing of the Irish Republican Army.

"It is better to have a minor crisis in order to avoid a major crisis further down the track," said Mr Proinsias de Rossa, leader of Democratic Left, one of the parties in the republic's ruling coalition.

Mr Bruton has made a point of not being seen to play to the traditional pan-nationalist agenda of acting as a proxy for advocates in the north of a united Ireland.

He has made significant overtures to pro-British figures in Northern Ireland and has been attacked increasingly in the Dáil, the Dublin parliament. Mr Gerry Adams, president of Sinn Féin, last week accused Mr Bruton of pandering to unionism. Only the most ardently nationalist politicians in Dublin now take the view that the British government can "deliver" the unionists into all-party talks. "We have to pander to all concerned," said Mr de Rossa.

The flexible line taken by Mr Bruton in the past made his speech on Saturday night all the more remarkable. The predominant theme was that the British were taking an overly legalistic approach.

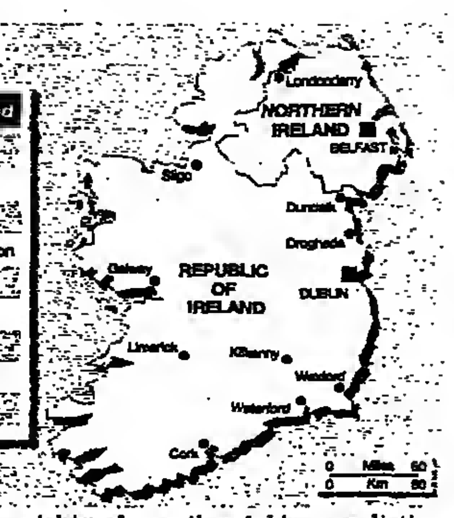
They had failed, he said, to address many of the historical grievances that have resulted from centuries of British actions in Ireland. Although couched in careful language, Mr Bruton called for a statement of regret for the most notorious actions of the security forces in Northern Ireland, such as Bloody Sunday in 1972.

Mr Bruton appeared to move closer than before towards "moral equivalence", the line espoused by Mr Adams in demanding that any "decommissioning" of IRA arms takes place alongside that of British forces in Northern Ireland.

"There is an inhibition," Mr Bruton said, "arising from the feeling that one side is being asked to accept more responsibility, through decommissioning, for what it has done, while officialdom is not willing to accept a moral responsibility for injustices for which its forces may have been responsible."

A divided island

	Northern Ireland	Republic of Ireland
Area	14,144 sq km	70,283 sq km
Population	1.58m	3.53m
Status	Province of UK	Independent republic
Head of State	Queen Elizabeth II	President Mary Robinson
Member of	United Nations	United Nations
	European Union	European Union
	Commonwealth	
	Nato	
Currency	Pound sterling	Irish pound



US lobbyists eat words on discrimination

By John Murray Brown in Dublin

A few years ago, the impression in Northern Ireland was that the Irish American lobby was actively canvassing US companies not to invest in the province.

Today, with the peace holding – albeit tenuously – and the ceasefires into their second year, those same lobbyists are some of Ulster's most energetic business ambassadors.

The days of the civil rights protests when complaints of anti-Catholic bias were cited as one of the key grievances of the nationalist community are largely past.

Mr Bob Cooper, head of the Fair Employment Commission, the UK government body set up in Northern Ireland 1989 to promote equal opportunities in the workplace, believes the debate has moved on.

Catholics, who make up around 40 per cent of those available for work, still comprise only 37 per cent of the workforce. But rates of Catholic participation are rising steadily, with the share in employment growing between 1990 and 1994 by 2.3 per cent.

In a landmark shift in US attitudes for example, Senator Edward Kennedy is urging the Clinton administration to buy a new missile system from Short Brothers, the Belfast aerospace concern.

In the past, the Canadian-owned aerospace company was one of the favourite targets of the Irish-American lobby for what was seen as the anti-Catholic bias in its employment policy.

The senator's intervention reflects US support for the peace process, but also the tangible improvements made in eradicating workplace bias. Catholics have made real advances in many areas. In the legal sector Catholics, who make up around 42 per cent of the population, now represent an arithmetic majority.

Already under the Northern Ireland legislation, the traditional method of recruiting by word of mouth on the shop-floor is not allowed. All vacancies have to be advertised. At executive levels, head-hunting is also prohibited.

Any operation employing more than 10 people is obliged to monitor their staff by religion, at the point where they apply for a job, at the selection process and at the stage where successful candidates are taken on. What's more, the FEC's findings are published every year.

Very often, the British government's training and employment agency will do the recruiting for a new investor, run the advertisements and arrange the shortlisting. The commission has a right to inspect a company's files, even its interview notes.

UK officials insist that the system allows recruitment to take place based purely on merit. The exercise is confidential. The managing director will not in theory know the religion of his interviewee – although in practice the name or where the candidate went to school the candidate went to, is usually a giveaway.

The challenges remain immense. The commission's target is to achieve a situation where Catholic population in employment is same proportion as that of the Catholic population as a whole.

Locally, an employer's payroll is meant to reflect the religious composition of the employment catchment area of the business.

Dupont has a plant in Londonderry, and was the first US investment in Northern Ireland, having arrived in 1959, before the Troubles began. "When the legislation came in, we didn't even have any record of the religion of our employees," says Mr Mervyn Simpson, managing director.

The US chemicals company made a point to keep politics out of the workplace. "I remember joining the company on the fourth of July, thinking that would be a good occasion for a celebration. But even that wasn't allowed," he says.

For some non-UK companies, the legislation is clearly a disincentive, providing a constraint on one of the key areas of management – the freedom to select your own staff. However, US investors on the whole seem more comfortable with the system, familiar with three decades of racially motivated fair employment legislation in their home market.

Significant improvements have been made for those in employment in Northern Ireland. But the problems of unemployment remain, particularly during a recession.

The latest commission figures show that Catholics are still more than twice as likely to unemployed as Protestants. In part, this reflects the fact that the growth rate of the Catholic minority has been faster than that of the Protestant population. In addition, larger numbers of Protestants have left the province, either for education or permanently.

The real danger is that with the closure of a few industries with a predominantly Catholic workforce or an increase in security-related employment which has tended to be Protestant, the currently encouraging trend could be reversed.

Some US investors are looking for tougher action.

In 1984, the US-Irish lobby introduced the MacBride principles aimed at encouraging foreign investors in Northern Ireland to adopt affirmative action programmes in favour of Catholics.

By 1993, the principles had been adopted by 13 state legislatures. State pension funds for example were discouraged from investing in companies, which did not meet the principles. President Clinton is said to have voiced support for the principles during his election campaign.

When the UK policy was launched – partly in response to the criticism of the US lobby – many companies were "aghast," according to Mr Michael Caulfield, who now manages the Derry operation of US computer company Seagate Technologies.

The challenge to meet the new is of course far less pronounced for new investors like Seagate, which only came to the province in 1993, than for the older investors.

Their problems are typically aggravated if they are located in an area polarised by religion, like Catholic West Belfast or protestant East Belfast. It is also far more difficult for an employer to redress the imbalances in the religious mix of the workforce during a recession, when recruitment levels are low.

However, Mr Caulfield contends that many US investors will probably welcome the comfort that the legislation provides. "For those companies who are ignorant of Northern Ireland, having this external monitoring is a relief."

A political what's what

Ulster: One of the four ancient provinces of Ireland along with Munster, Leinster and Connaught. The name is now used as shorthand for Northern Ireland even though the province includes three counties – Donegal, Monaghan and Cavan – of what is now the Irish Republic. The Six Counties or the North are nationalist terms for Northern Ireland.

Unionist: A generic term meaning a supporter of the continued union between Northern Ireland and Great Britain. Unionists are usually, but not exclusively, Protestant. There are several separate unionist political parties within Northern Ireland, the biggest of which, the Ulster Unionist Party – now led by David Trimble – severed its traditional link with the British Conservative party in protest at the signing of the 1985 Anglo-Irish agreement.

Loyalist: In theory merely someone who is loyal to the British crown, but the term has recently become used to describe extreme Protestant paramilitary organisations; some members of which, ironically, may prefer an independent political future for the province.

IRA: The Irish Republican Army which staged the 1916 Easter Rising in Dublin against British rule has remained, in spite of various splits and factional in-fighting, a focus for the armed struggle towards a united Ireland. A split in the movement over strategy in 1970 led to the birth of both Provisional IRA (the Provos) and Provisional Sinn Féin. The Official IRA declared a ceasefire two years later. Both groupings continue to regard themselves as the true inheritors of 1916.

Provisional IRA: Since the 1970 split the Provos, almost always referred to simply as the IRA, have been the leading republican terror group, mirrored by the coming to prominence of Provisional Sinn Féin (Sinn Féin is Gaelic for 'Ourselves Alone'), the political party led by Mr Gerry Adams. The PIRA carried out numerous high-profile bomb attacks on the British mainland and on British targets in Northern Ireland before its ceasefire in August 1994 set the scene for the current moves towards all-party political talks.

Orange Order: The symbol of pro-British protestant hegemony in Northern Ireland is characterised by its annual

A despatch from Canada July 15 1895

Financial Times

Winnipeg, 13th July. The Orangemen assembled yesterday in large numbers throughout the province to celebrate the anniversary of the Battle of the Boyne. The speakers were everywhere unanimous in condemning the Dominion Government for having promised to introduce remedial legislation regarding the schools in question in Manitoba, and in endorsing the refusal of the Manitoba Government to restore the separate schools for Roman Catholics.

marches on July 12 commemorating the victory of King William III of England over the deposed Roman Catholic James II at the Battle of the Boyne in 1690. The Order was formed in 1795 and has lodges – loosely based on the Masonic format – across the globe. Its Catholic equivalent, the Ancient Order of Hibernians dates from the 1830s and is similarly widespread.

Stormont: The former seat of the Northern Ireland parliament until it was prorogued with the introduction of Direct Rule from Westminster in March 1972, the Stormont complex is now used as offices for ministers and government officials. Stormont Castle is the official residence in the province of the British secretary of state for Northern Ireland.

UDA: Formed in 1971, the Ulster Defence Association has been the main Protestant paramilitary grouping despite a fall in its membership from the estimated 40,000 at its peak in 1972. It staged several military-style shows of force in Belfast and was more populist than the more violent Ulster Volunteer Force. Working-class in membership, the UDA is the precursor of the modern loyalist political groupings which were instrumental in bringing about the loyalist ceasefire in 1994.

Fenian: An insulting term used by extreme Protestants against Catholics, but historically refers to members of the Fenian Brotherhood, a 19th century organisation which included both religions and which campaigned in Britain and North America for Irish independence from Britain.

Fianna Fail and Fine Gael: The two major parties in the Irish Republic each grew out of the Anglo-Irish treaty of 1921, which partitioned the island. Fianna Fail (which means Soldiers of Destiny in Gaelic) was opposed to the treaty, while Fine Gael (The Party of the Celt) was the pro-treaty wing of the old Sinn Féin movement. Fine Gael has been regarded as taking a softer line than its opponents on Irish unity. Its leader John Bruton replaced Fianna Fail's Albert Reynolds as Taoiseach (Irish prime minister) last year.

RUC: The Royal Ulster Constabulary is the overwhelmingly Protestant internal police force frequently criticised for its policing of nationalist areas. Catholics represent less than 10 per cent of its membership – many potential recruits are discouraged by fear of IRA reprisals – but the RUC says the number of Catholic applicants has doubled since the ceasefires. The force, under Chief Constable Sir Hugh Annesley, has recently been coming into conflict with Protestants.

Optimism at highest since ceasefires

Business confidence among manufacturing companies in Northern Ireland is higher than at any time since the paramilitary ceasefires last year, according to a survey by PA consultants of 100 companies, *John Murray Brown writes*.

The survey, which represents about half of the manufacturing workforce – suggests that the Northern Ireland economy continues to outperform that of the rest of the UK.

The survey estimates that the province has seen a 14 per cent increase in planned investment in the 12 months to the end of October compared with the previous year.

The Northern Ireland Industrial Development Board, the government body entrusted with approving new investment, reports that the number of inquiries from companies seeking to locate in the province has more than trebled to almost 750 in the six months to October compared with the first half-year.

"I am confident it will be the best-ever year for foreign investment," said Mr Bruce Robinson, the new development board chief executive. Mr Robinson said the investment projactions ware "entirely consistent" with the current strong performance of the domestic economy.

The survey predicted output growth of about 5 per cent in the year to October and a 4 per cent increase in order books.

Northern Ireland manufacturers saw a 7.3 per cent jump in output in the year to March compared with a 3.5 per cent increase for the UK economy as a whole.

Tha province also enjoyed a 1.5 per cent increase in employment, representing real productivity gains of about 5 per cent.

Mr Robinson also said the current robust recovery of the economy reflected the improved labour mobility as a result of the end of the paramilitary violence.

Main players in the search for peace: (from left) UK prime minister John Major, Irish premier John Bruton, Social Democratic and Labour party leader John Hume and Sinn Féin's Gerry Adams

Before the gunmen laid their weapons aside

■ A reminder of what the peacemakers are striving to avoid

- **1993** March Irish Republican Army bomb kills 2 children and injures 56 people in Warrington, north-west England; in N Ireland fiercely anti-nationalist Ulster Freedom Fighters shoot four Roman Catholic construction workers; IRA sniper kills British soldier, pro-British terror group kills Roman Catholic man
- April IRA bomb at NatWest Tower in City of London kills one person and injures 30; pro-British paramilitary leader shot dead in N Ireland
- May Ulster Freedom Fighters kill two people in N Ireland; IRA kills part-time soldier
- June IRA shoots Belfast taxi driver; Irish National Liberation Army kills ex-policeman in Belfast; pro-British terrorists kill Roman Catholic truck driver
- July IRA kills British soldier near border with Republic of Ireland; exploding grenade kills Ulster Volunteer Force man carrying it
- August Son of Sinn Féin councillor shot dead in Belfast
- Sept Prison officer shot dead in Belfast by Ulster Volunteer Force; IRA kills builder
- Oct IRA shoots manager of construction company in Belfast; two Roman Catholic dustmen murdered; IRA bomb in Belfast kills 10 people; Roman Catholic is shot in revenge; Ulster Volunteer Force kills seven people in bar
- Nov N Ireland policeman dies after being shot by IRA sniper
- **1994** Mar Ulster Freedom Fighters fire rocket at Sinn Féin office in Belfast; IRA mortar bomb fired at Heathrow Airport in London fails to detonate
- April Six people killed in 72 hours in N Ireland in attacks by different paramilitary groups
- May Ulster Volunteer Force kills doorman at bar in Dublin, capital of the Republic of Ireland, but bomb it plants there fails to explode; IRA kills British soldier in N Ireland
- June Schoolchildren taking exam injured by makeshift flamethrower in N Ireland; British Army says IRA responsible for 108 bomb attacks in N Ireland since start of year; man killed by Irish National Liberation Army in Belfast; second man dies of injuries later; Ulster Volunteer Force kills six people watching television in pub at village of Loughinisland; Protestant construction worker killed on building site in Belfast
- July Seven injured in attack on bar by Ulster Freedom Fighters, who say afterwards: "Locked heavy mahogany front doors prevented our volunteers from inflicting heavy casualties"
- August Two men killed by IRA in Belfast are thought to be leading members of Ulster Volunteer Force

Quiet diplomacy gains ground against the bullet

The Irish Republican Army claims to have determined part of the recent history of Northern Ireland with a mixture of politics and the gun. US businessmen have played a somewhat more positive role in the province with a mixture of quiet diplomacy and investment.

The ceasefires by the IRA and its pro-British rivals more than a year ago have not led directly to any massive inflow of US investment. Caution persists against a background of continuing deep suspicion between the nationalist and pro-British communities in Northern Ireland. The bullets have stopped flying, but discipline continues to be enforced within the communities with what the police call "punishment beatings" in which weapons other than guns are used.

Nevertheless British officials say inquiries from US companies have tripled over the past year. Officials on both sides of the Atlantic have been preparing the ground by removing the obstacles that have dissuaded some US investors in the past.

Even before the ceasefires were announced, the British government had been making progress in insuring that its Fair Employment legislation, insuring equal treatment at the workplace for Catholics and Protestants, was adhered to by companies operating in the province.

Northern Ireland officials are now confident that they have largely succeeded in taking the steam out of the 11-year old US campaign in support of the so-called MacBride principles, which aim to promote civil rights and equal opportunities in the province.

That there has been progress on fair employment was publicly confirmed during a recent visit to Belfast by Mr Alan Hevesi, who as the New York City comptroller (treasurer) has been an instrumental figure in tha MacBride campaign. Mr Hevesi said he believed there was now a "convergence" between British legislation and the MacBride principles.

Such "convergence" is likely to mean that Mr Hevesi will by the middle of next year be in a position to channel up to $100m in institutional funds to Northern Ireland in the form of "Irish Peace Bonds". These would be backed by cash and capital contributions from Britain, the Republic of Ireland, the US and the European Union. The bonds would then be floated on capital markets in tha US and give Irish Americans a chance to take a stake in regenerating the economy of all of Ireland.

Bnt Mr Hevesi warned that "US investors, whose awareness of Ireland has been raised, will look elsewhere if the peace process does not move forward." If the ceasefires hold, US investors are likely to play an increasingly important rola in channeling funds to areas of long term unemployment where the potential for IRA recruits has been strongest in the past. At present 66 per cent of the 88,000 long-term unemployed in Northern Ireland are Catholic.

UK officials privately recognise that such investment will need to be encouraged with a comprehensive package of incentives, as well as a comprehensive training programme. That may taka time, and its instrumentation may be complicated if the current peace process is not put on a firmer footing.

US and UK officials appear confident, however, that they can build on the successes of US businesses that moved into Northern Ireland even at the height of the troubles and have led by example on issues like fair employment. Of the 195 companies operating in Northern Ireland which are not British-owned, 46 are US-owned, employing some 10 per cent of the total workforce of the province.

It was a group of Irish-American businessmen who were partly responsible for persuading President Clinton in February last year to lift a visa ban on Mr Gerry Adams, president of the nationalist Sinn Féin party, against the advice of State Department officials and the British government.

Within weeks one of the men who had invited Mr Adams to the US, Mr Bill Flyn, president of Mutual America, one of the biggest insurance companies in the US, was in Belfast persuading hard men of violence that the future of their children wes best assured not by bombs and bullets but by dollars and jobs.

Since the IRA ceasefire, there have been three highly publicised US investment conferences focused on Northern Ireland. The last one in May, was held in Washington and sponsored by the White House.

Jimmy Burns

MANAGEMENT

Methods of job-cutting disguise the true unemployment picture, writes **William Dawkins**

Japan's silent knife

It may seem odd that Nippon Telegraph and Telephone, Japan's largest corporate employer, can announce 45,000 job losses this week with barely a murmur from the prospective victims.

The cuts - amounting to a quarter of the workforce - will admittedly be phased in over five years with a knife wielded in the customary gentle Japanese manner. Such gentleness, however, is sometimes more apparent than real.

As a pillar of the industrial establishment, NTT's scope for cost-cutting is still constrained by the unwritten obligation to maintain lifetime employment, in spite of the worst recession in 60 years. But within this limit, the boundaries of obligation at NTT and elsewhere are being drawn tighter, around young and early-middle-aged workers – who are underpaid, by Japan's seniority-based salary system, in relation to their contribution.

Even before the recession, lifetime employment was restricted to the privileged minority of leading companies and the public sector. The main labour cost-cutting techniques, used by both small and large Japanese businesses, are:

● Early retirement. Half of NTT's job losses will come through natural or early retirement, an easy way to cut costs in a country with the fastest ageing demographic profile of any advanced economy. Roughly 15 per cent of the population is aged more than 60, due to rise to 17 per cent by the time NTT plans to complete its job cuts in 2000 and 25.5 per cent in 2020, according to the Health and Welfare Ministry.

NTT's staff is even older than the national norm: the average age of its 190,000 workers is 42. These are post-war baby boomers who joined in the early 1970s and were much in need during the early part of their careers to rebuild the economy after the first oil price shock. These former corporate samurai find themselves, in middle age, surplus to requirements as the economy faces a new set of problems.

Normally, Japan's corporate warriors are paid off at 60 with a lump sum, equivalent to a month's pay per year of service. A 30 per cent to 40 per cent premium is often offered to those prepared to retire early. A growing number of companies are also offering a mixture of lump sum and pension allowance, says Yoshitami Arai, a Tokyo-based management consultant.

One leading supermarket chain which recently made such an offer was surprised at the large number of retirement applications from staff in their 30s and 40s, a mark of the new acceptability of job-hopping. Unfortunately, recalls another management consultant, those who felt confident in their ability to find a new job were precisely the ones the company most wished to keep. That, of course, is a problem not restricted to Japan.

Toyota, the leading car producer, has encouraged people to leave early by setting an age limit, 55, at which staff lose their title. Other companies, in the car and electronics industries, have introduced merit-based pay awards, not just to reward performers, but to discourage the unwanted.

Smaller companies, even less able to be generous, rely increasingly on compulsory retirement, known as "the tap on the shoulder", as used in a controversial job cutting programme two years ago by Pioneer Electronic, the audio and video group.

Psychological pressure is also said, by Japanese executives, to be applied to those who resist the hint to leave. "It is indirect, but intense. One is left feeling that it is very difficult to stay. It's like school bullying," says one.

● Recruitment. NTT and many others are sharply reducing their graduate intake, a change to the traditional strategy of ensuring a steady supply of new staff, even in bad times, to avoid management gaps a generation ahead.

Inevitably, this has produced a very sudden rise in graduate unemployment, to the government's concern.

According to the education ministry, only 67 per cent of last year's university graduates found a job last spring, the lowest proportion since records began just after the second world war. Many continued to study rather than do nothing, leaving an underlying graduate unemployment rate for last year's class of 17 per cent.

● Redeployment. Many companies' first labour cost-cutting move, at the start of the recession, was to shift surplus staff into new subsidiaries.

Most of these new activities were of dubious economic value, such as philanthropy, environmental affairs and making company calendars, at one trading company. Public relations is another traditional parking area for unwanted salarymen, who are known as *madogiwa zoku*, or window-sitters. Market gardening, ski resorts and amusement parks, typically barely profitable, are among the job-creating offshoots of leading mining and steel companies.

By definition, the cost of those redeployed workers has merely been moved away from the parent company, rather than cut. Most Japanese companies publish parent results a few weeks before the consolidated version, with the result that loss-making subsidiaries and affiliates have a conveniently low profile.

NTT says its new subsidiaries will be growth businesses, such as multimedia. But, even assuming it can make a profit in that very competitive sector, NTT is exceptional. Fewer corporate cost cutters now use this technique, because their first batch of new subsidiaries have made little money, says Naoto Kira, a management consultant with McKinsey in Tokyo. "Their capacity to absorb excess workers is fully used," he says.

● Flexible pay. In good times, Japanese workers' bonuses and overtime form a larger proportion of total pay than for their US or European counterparts. In a downturn, total pay can therefore be cut fast, deferring the need for job losses, which is one reason why the official measure of unemployment is still only 3.2 per cent.

Economists estimate that the internationally comparable rate is roughly double that, adjusting for Japan's uniquely loose definition of an employee. That makes Japanese unemployment higher than the US, a sign that its companies are tougher with the knife than popularly thought.

But they are not as ruthless as competitors in Europe, where the unemployment rate is even higher.

JOHN KAY

Sharing responsibility is to pass the buck

General Learmont's report on prison security in the UK is a surprisingly good read. Its account of escapes from Parkhurst reads like a thriller. Its account of public-sector mismanagement reads like a comic novel. But the catalogue of errors it describes has more than entertainment value. It illustrates fundamental issues of what we mean by accountability.

Everyone – prime ministers, chief executives, pension governors and prison officers – ought to be accountable. But the concept of accountability that we have in Britain's public sector is destructive, not constructive. It reaches its worst excesses in government, though you can recognise it in bad managers everywhere.

What politicians and civil servants often mean by accountability is a process of supervision which undermines the responsibility that operational managers have for their actions without attaching this responsibility clearly to anyone else.

When Derek Lewis, the former director of the Prison Service, and Michael Howard, the home secretary, begin arguing in public about who is responsible for the state of British prisons, or who fired the governor of Parkhurst, it does not really matter who is right and who is wrong. What is truly damning is the possibility of them having that argument at all.

Every time you look over someone's shoulder, you transfer to yourself some responsibility for what they do

When there is ambiguity about who is responsible for an action, or its results, the consequence is that no one is truly accountable. It usually follows that no one has either the commitment to the decision or the authority to get it right. When it goes wrong it is essential, and usually possible, to find someone else to blame.

This is not just true of the prison service. Have you talked to anyone who works in health, or education, or in the subsidised arts, who thinks that what is wrong with the system is something for which they, rather than someone else, is responsible?

The same problem – the excess of accountability which in the end means no accountability at all – was the central weakness in the management of Britain's nationalised industries.

We set up public corporations as autonomous agencies but, in the legitimate interest of accountability, constantly reviewed their operational and investment plans. The disappointing results led to still more extensive scrutiny and a battery of ultimately inconsistent mechanisms of control. In the end, we scrapped all these mechanisms at privatisation, gave managers autonomy to get on with the job, and allowed them to achieve substantial improvements in the efficiency of their industries.

But now, of course, accountability is creeping back. It seems absurd that water is leaking from pipes in times of drought. So we are anxious to tell Yorkshire Water and BT what to do.

Well – not tell them exactly. Advise them, encourage them, agree the best course of action. The same ambiguity that characterised Howard's relations with Lewis is there again. And where there is ambiguity about responsibility, there is no real accountability, and where there is neither accountability nor responsibility there is inefficiency and incompetence.

Read the Learmont Inquiry if you are in any doubt. Appropriate accountability is not "why did you do that?", still less "you should have told me before you did that". And it is certainly not "it would be helpful if you did this instead of that", the classic means of imposing a course of action without taking responsibility for it.

Constructive accountability gives people freedom to make decisions but holds them fully responsible for the consequences. A traditional public-sector ethos does just the opposite. The central distinction is between making people accountable for their individual actions and making them accountable for the overall result.

If you insist on the first kind of accountability, you lose the opportunity to have the second. Every time you look over someone's shoulder, you transfer to yourself some responsibility for what they do. To pretend otherwise, as Howard did, is to ensure that no one is really responsible for anything at all.

The public sector is slowly learning how to structure freedom with accountability. Privatisation, with five-year periodic reviews, helps; and franchising, under which underperforming companies could be fired after five years, would help still more.

Accountability should not be confused with a hire-and-fire culture: the essence is serious, occasional review

But we should not confuse accountability with a hire-and-fire culture: the essence is serious, occasional review, and review by reference to what people have done, not how they did it. That means letting go, which politicians find all too difficult.

The Next Steps initiative, which aims to boost efficiency in the public sector, casts ministers as owners of agencies, but owners who advise and help, and approve and monitor the business plan. Sensible owners do not approve the business plan, because if approval is more than an empty formality it undermines the responsibility of those who run the business.

And if you ask who is responsible for British monetary policy – Treasury or Bank of England – you will get an elegant equivocation which means that everyone can run for cover if prices rise. The same rules that apply to operations apply to policy management as well.

Shock artists

Lynn MacRitchie visits Minneapolis thirty years on

Thirty years ago, the American mid-West was the unlikely host of the first international showing of British pop art. *London: The New Scene*, held at the Walker Art Gallery in Minneapolis, Minnesota, celebrated the work of Peter Blake, David Hockney, Bridget Riley and many others. Three decades on, Richard Flood, chief curator of the Walker is hosting *Brilliant!*, another exhibition of new British art, with Damieo Hirst, Rachel Whiteread and 20 others, assembled together for the first time.

The historical parallels are interesting. While the fashions at the 1960s *New Scene* party – bouffant hairdos and stilettos for the girls, Italian style suits for the boys – would have looked great at the *Brilliant!* thrash, the exhibition catalogue revealed an approach to the making of art which today seems almost naive in its deadly seriousness.

Then, Peter Blake may have introduced images from wrestling shows and *pin-up* magazines – but he presented them through the most traditional of means, drawing and painting photos of the Beatles with Pre-Raphaelite attention to detail. The other painters and *sculptors – for those* categories were still then rigidly applied – addressed themselves to questions of form and painterly values, the painters pitting themselves against the US Abstract Expressionism.

All this bas gone. Today's artists see no need to pit themselves against others, or indeed to think about art as a formal concept at all. "To me, trivial things are just as meaningful as things that are supposed to be important. And I think that's true of a lot of the work that's shown at the Walker," artist Georgina Starr explained. Her own piece, an installation of photographs, drawings, and an interactive CD-Rom, all called "The Nine Collections of the Seventh Museum", records the random objects and activities with which she filled two solitary weeks in a crummy hotel room in The Hague. Gillian Wearing shows s video of herself dancing in a shopping mall in Peckham.

While their Pop forebears tended to be associated with the Royal College of Art, 15 of the artists in *Brilliant!* are graduates of Goldsmiths' College where they were taught to consider their position as artists, and *how they* might communicate better in society. One of the characteristics of this generation of artists, Goldsmiths professor Michael Craig Martin explained, is their self-reliance, and their refusal to be dependent on galleries or dealers. Indeed it was through self-organised shows such as the ground-breaking *Freeze* in 1988 that they first made their mark. The market caught up quickly, however, and London dealers and US collectors were prominent at the Minneapolis opening.

These artists have come along way from pretty Pop Art paintings of Marilyn Monroe

While the *Brilliant!* artists are supportive of each other, the selection and installation inevitably suggests a hierarchy. Damien Hirst and Rachel Whiteread, more established than some of their fellow exhibitors, are represented by restrained pieces which, while showing neither of them at their most controversial, clearly demonstrates their preoccupation with finding formal equivalents for a certain melancholy world view.

Whiteread contioues her casting of the hidden spaces of domestic environments, Hirst collects and isolates ordinary objects, in this case office furniture and cigarette ends, which become a metaphor for futility and loss.

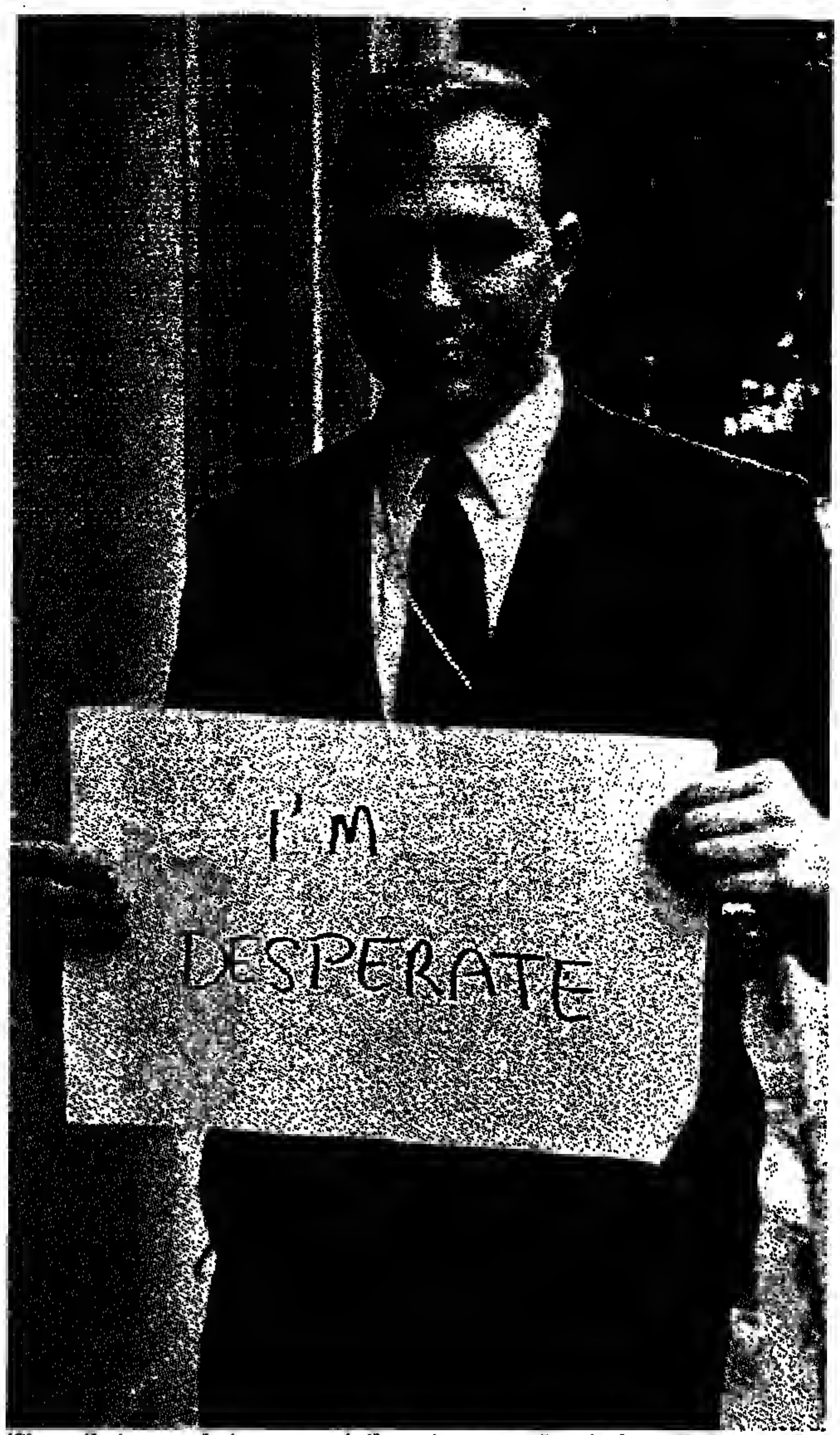
In the same room as the Hirst vitrine, the paintings of Gary Hume look at their best, their random images commanding in their commercial coloured banality. The artist had also made a video. The apectacle of Hume, fully clothed and adorned with Burger King cardboard crown, sitting in an overflowing bath telling the story of King "Cnut", comes close to the sort of intellectual shock – profound ideas expressed in the trashiest possible way – the show seeks seeks to deliver. Angus Fairhurst, in his video of himself leaping up and down until he emerges naked and exhausted from the "Cheap and Ill-Fitting Gorilla Suit" continues this theme, which emerges as the linking aesthetic of the show.

The artists' works are strongly individualistic, using every possible medium from film, photography, video and painting to sculpture using materials as varied as fibreglass and flowers, life performance and sewing. The link is attituda, a datermination to recover personal values from a world overloaded with trivia.

Commercial images form the landscape in which these artists operate: mass media images are used as tools for enquiry. When Matt Collishaw takes and repeats a series of frames from the Jodie Foster film *The Accused* it is not to celebrate the star. It is sexual brutality rather than star quality we are asked to consider.

These artists have come a long way from pretty Pop Art paintings of Marilyn Monroe. They know Marilyn had bad sex and was probably murdered; that she wasn't an icon, just human. Making art that talks about humanity rather than formality is what *Brilliant!* is really all about.

Brilliant!: New Art from London; October 22 – January 7, Walker Art Centre, Vineland Place, Minneapolis, MN 55403-1195. Tel 612 375 7650. Sponsored by Beck's Beer, the British Council, the Henry Moore Foundation, the Lannan Foundation and individual sponsors.



'Signs that say what you want them to say and not signs that say what someone else wants you to say' by Gillian Wearing

Fighting talk at the V&A

Dr Alan Borg, who took over last month as director of the Victoria & Albert Museum, is obviously not starry eyed about his new baby. "The Islamic gallery is appalling. The Henry Cole a disgrace. Only a small number of galleries are pretty good – the majority need upgrading. You can't rely on every object having a label. If anyone gets to the top floor they will find labels going back to just after the war".

In contrast to his predecessor, Mrs Elizabeth Esteve-Coll, who spent much of her time guarding her back and apologising for being a former librarian, Dr Borg seems determined to confront every problem head on – or even to seek them out.

It would be surprising if the V&A did not introduce an admission charge in the near future. "I don't like them but I'm not opposed to them. We've had a stand-still grant for ten years which means a real cut in revenue. In 1997-98 we are looking at a £3m deficit. I can either cut back our service or try and bridge the gap. There will be no extra money from the government, any government. I will have an entry charge if it keeps galleries open. But it's not my decision; it's up to the trustees."

He is certainly not enraptured by the current system of a voluntary payment, which is ignored by 57 per cent of the visitors to the V&A and which raises only £1m a year. "It's silly and makes people feel uncomfortable." It has also led to a fall in admissions, although they have now stabilised at around 1.4m a year.

Not that Dr Borg is over-impressed by the numbers game. "People through the door is not the most important factor – the quality of the visit is. Charging is a lesser evil." With 118 of the V&A's 144 galleries closed at some time in June, Dr Borg obviously does not think the V&A at the moment is living up to its reputation as one of the great museums of the world.

The main problem he confronts is unchanging and unromantic – the state of the roof. "It would cost £200m to put it right, but that would also solve the other problems of the structure". In the meantime it is back to the buckets to collect the rain water and the closing of galleries. Admission charges would make a minimal contribution to raising such a huge sum, but showing that he means business might well impress the government, the holders of the lottery purse strings, and private and corporate benefactors.

Dr Borg got the job at the V&A largely on the back of his reputation at the Imperial War Museum, where he virtually rebuilt and re-positioned what looked like a lost cause – "a museum with the three worst words in the language in its title" – by conjuring up millions from the government, business, and trusts. And where he also introduced an admission charge.

In the meantime there is the bid for the Millennium Commission to prepare. The V&A is seeking up to £40m for new galleries covering the 20th and 21st centuries, and an education centre, to be built on the boiler-house site at the rear of the museum. "It has to be the best building in the country; I'm looking for a landmark like the Louvre's pyramid."

He is also talking with Sheffield council about a V&A of the north. There are thousands of objects unseen in store – only 3 per cent of the Asian collection, for example, is on display – which could happily go north for temporary exhibitions. Once again the problem is money; if Sheffield can supply a building and the running costs, the V&A will furnish it.

Dr Borg has been at the V&A for six weeks. He has already re-organised the management structure, drawing the curators more closely into the decision making. He is looking at audio guides; at improving the Museum of Childhood out-station. He is up and running. It will be remarkable if he can maintain the pace.

Antony Thorncroft

Opera/**Richard Fairman**

Up-to-date Purcell

The final countdown is ticking away. Only a few days now remain to the tercentenary of Purcell's death and any *concert-hall* or *opera-house* in Britain that has not yet marked the occasion is in danger of missing the closing cadence.

At the Guildhall School of Music the students timed their autumn term opera production to a nicety. Perhaps it was unfortunate that the Royal Opera had already put on such a lavish production of *King Arthur* earlier in the year, but the *raison d'être* of a student performance is in any case different. The challenge is to show mastery of a particular style of music and, in the case of Purcell's semi-operas, of drama as well.

Forget any notion of Purcell being a dusty composer of the distant past. The music of the 17th century has never seemed more alive and young musicians with an eye on the future are wise to keep him in their sights.

The time when music colleges concentrated on the 19th-century classics has long gone. Most of them now run specific courses for study on period instruments and keep their eyes trained on the early music ball – at least if they are in Britain or the Netherlands.

These two countries have been the leaders in the field since the outset. Just as Anglo-Dutch companies seem to enjoy a good working relationship, so joint ventures in the musical world often work to mutual advantage. For its *King Arthur* the Guildhall School of Music in London set up its fourth collaboration with the Royal Conservatory of The Hague. Ton Koopman, the eminent Dutch early music specialist, had trained and conducted the student period orchestra with some élan.

Unfortunately, it is inconvenient that we should want to celebrate Purcell's extravagant Restoration stage works at a time when resources are hard to come by and Francisco Negrin's staging looked like the economical production it most probably was. The producer was also more sensitive to movement (there were dancers from the London Contemporary Dance School) than he was to words. Dryden's play is dry stuff and the young actors chewed over its text with limited signs of enjoyment.

For the singers there are opportunities a-plenty, as everybody gets his or her little solo. The school seems to have a good selection of sopranos and tenors at the moment, some of them gamely having a go at the accepted early music style. Louise Cannon was a sprightly Cupid and Julian Saipe's resonant bass brought the Cold Genius warmly to life. The early music business is a highly profitable one worldwide, so for the students early experience like this should be money in the bank.

Theatre/**Alastair Macaulay**

King Lear comes to grief

What an age we live in – when Emma Peel has graduated to play Mother Courage and Alf Garnett gets to act King Lear. Things might have been better – after Fiona Shaw's Richard II, all things are possible – if Diana Rigg and Warren Mitchell had been invited to swap roles. She has class, and he has grit. But as things are . . .

As the protagonist of the West Yorkshire Playhouse's wholly undistinguished production of Shakespeare's most cosmic tragedy – now showing at the Hackney Empire – Warren Mitchell gives, within very narrow limits, a nice enough performance. He plays blustery Mr Lear, a tough old upper-middle-class customer with a fierce sense of humour and three problem daughters. And he plays it entirely in prose.

He is called a king, but his busy gestures suggest that he has never been used to getting his way. He begins by wearing army medals, but his bearing reveals that he has never seen military service. He addresses the gods with all the authority of a pensioner complaining to his local MP. When madness comes, it is fairly simple: chiefly, he gazes up above and lets his mouth gape open. Really, he is much more at his ease on the heath than he was at court; and, once in the company of poor Tom and all the other oddballs, he strips off all his clothes with great alacrity. He has no stillness, and he never takes us into the workings of his mind; but much about this Mr Lear is quite believable. Only in the longer speeches is he ever dull.

Why on earth is the West Yorkshire Playhouse tackling *Lear* anyway? When its artistic director, Jude Kelly, staged *The Merchant of Venice* last year, she addressed the problematic challenges of that play seriously, and showed how well character and narrative interconnected. No such approach is consistently apparent in her *Lear*. Here, "characterisation" keeps on blurring the narrative. Why does Regan keep the corpse of her husband under her bed? If Albany is motivated solely by his ambition for the crown, why does he treat his royal wife Goneril as he does? Why do Goneril and Regan find so knock-kneed a creep as Edmund attractive? Why does Cordelia start as the worst-dressed woman in Britain and then, *after marrying* the King of France, come back dressed even worse?

Such a production – much the worst by Kelly I have seen – encourages its actors to aggrandise their roles at the expense, rather than to the profit, of the production. Goneril, Regan, Edmund, Edgar all do have passages, early on, where they actually do take us into the workings of their minds. And the conceptions of Edmund (Damien Goodwin) as a self-tormented adolescent and of Goneril (Tricia Kelly) as an anxious, fretful, ugly married virgin who discovers sex and romance only with Edmund, are both original.

But each of these characterisations comes to grief. As mean little Regan, Alexandra Gilbreath goes way over the top; she keeps puking at too regular intervals, and the downward slide with which she ends phrases has become a bad vocal *mannerism*. Goodwin does some nasty upstaging of Edgar in the final scene. As Edgar, Robert Bowman is candid, lightweight, woefully unspontaneous in recounting his father's death. It is hard to believe that so fretful and ingratiating a woman as Tricia Kelly's Goneril will readily exhibit sadism.

Other performances are much worse. I can see no merit at all in Cathy Sara's snivelling and small-spirited Cordelia, in Jonathan Savage's calculating and posey King of France, or in Trevor Baxter's genteel and silly Gloucester. The four homeless people who tag after poor Tom/Edgar are straight out of a coarse acting manual. Michael Cashman turns the Duke of Albany into a creepy misogynist, politically ambitious and (homo-)sexually repressed; and Toby Jones is a frantic, unamusing Fool. Not only are these performances un-Shakespearian in their one-sidedness, but the spiritual world they create is altogether pettier than Shakespeare's. The production ends not with a dead march, but a sinister confrontation between France, Edgar, and Albany over the hollow crown: precisely the cynical kind of clever sub-point we do not need at that stage in the play's spiritual journey.

Mic Pool's sound intrudes vilely upon an increasing amount of scenes as the play progresses. Paul Andrews has given unappealing costumes to everyone except poor Tom. A drab black curtain at the back looks especially foolish as it billows feebly during the storm, undoing the fine effect made by the falling rain in front of it (memorably lit by Mark Pritchard); then, suddenly, one two-dimensional set keeps replacing another. Vocal projection is weak, and verse speaking is weaker. There have been duller and emptier *King Lears*, true. But this production is a dispiriting mess.

Hackney Empire until December 3.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Radio Filharmonisch Orkest: with conductor Roberto Abbado perform Mussorgsky's "Night on the Bare Mountain" and Dvorák's "Symphony No.9 (from the New World)": 11am; Nov 19

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-254880
● Das Sinfonie-Orchester Berlin: with conductor Jiři Malat and pianist Mami Miyake perform works by Mozart; 8pm; Nov 18
DANCE
Komische Oper Tel: 49-30-202600
● Lebensräume/Vier Jahreszeiten: choreographies by Jan Lenkens performed by the ballet of the Komische Oper; 7.30pm; Nov 18
Staatsoper unter den Linden
Tel: 49-30-2082861
● Giselle: choreography by Perrot/Coralli/Petipa to music by Adam. Conducted by Werner Stolze and performed by the ballet of the Staatsoper unter den Linden; 7pm; Nov 18
OPERA & OPERETTA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Der Ring des Nibelungen: Götterdämmerung: by Wagner. Conducted by Jiři Kout and performed by the Deutsche Oper Berlin. Soloists include René Kollo, Matti Salminen, Eva Marton, Lenus Carlson and Oskar Hillebrandt; 5.30pm; Nov 19

■ DRESDEN

OPERA & OPERETTA
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● Tristan und Isolde: by Wagner. Conducted by Christof Prick and performed by the Sächsische Staatsoper Dresden. Soloists include Wolfgang Schmidt, Theo Adam, Sabine Hass and Hans-Joachim Ketelsen; 4pm; Nov 19 (5pm), 22, 26

■ DUBLIN

CONCERT
National Concert Hall - Geoláras Náisiúnta Tel: 353-1-6711533
● The Irish Sinfonietta: with The Guinness Choir and soloist Lynda Lee perform Cassidy's "Deirdre of the Sorrows"; 8pm; Nov 18

■ FLORENCE

OPERA & OPERETTA
Teatro Comunale
Tel: 39-55-211158
● Macbeth: by Verdi. Conducted by James Conlon and performed by the Orchestra e Coro del Maggio Musicale Fiorentino. Soloists include Alexandru Agache, Dmitri Kavrakos, Barbara De Maio, Donato Tota and Terige Sirolli; 8.30pm; Nov 18

■ HAMBURG

OPERA & OPERETTA
Hamburgische Staatsoper
Tel: 49-40-351721
● La Bohème: by Puccini. Conducted by Marc Albrecht and performed by the Hamburgische Staatsoper. Soloists include Miriam Gauci, Marcello Giordani and Dwayne Croft; 7pm; Nov 19, 26

■ HELSINKI

OPERA & OPERETTA
Opera House Tel: 358-0-403021
● Don Giovanni: by Mozart. Conducted by Anton Zapf and performed by the Finnish National Opera; 7pm; Nov 18, 27

■ LONDON

CONCERT
Queen Elizabeth Hall
Tel: 44-171-9604242
● London Sinfonietta: with conductor George Benjamin and pianist Yvonne Loriod performs works by Varese, Grisey, Benjamin and Messiaen in the series "The Composer Conducts", with Benjamin's "Three Inventions for Chamber Orchestra" in its first UK performance; 7.45pm; Nov 18
St John's, Smith Square
Tel: 44-171-222 1061
● Arion Orchestra: with conductor Brian Stait and cellist Heather Harrison perform Beethoven's "Overture Egmont", Elgar's "Cello Concerto" and Dvorák's "Symphony No.7"; 7.30pm; Nov 18
St. Martin-in-the-Fields
Tel: 44-171-8398362
● Mozart's Jupiter Symphony by Candlelight: the London Concert Sinfonia with conductor John Landor perform Mozart's "Jupiter Symphony" and "Piano Concerto"; 7.30pm; Nov 18
Wigmore Hall Tel: 44-171-935 2141
● Jean Rigby: the mezzo-soprano, with violist Thomas Riebl and pianist Susan Tomes, performs works by Hindemith, Brahms, Britten and Bischof; 7.30pm; Nov 18

■ LOS ANGELES

OPERA & OPERETTA
Dorothy Chandler Pavilion
Tel: 1-213-9728001
● Die Entführung aus dem Serail: by Mozart. Conducted by Julius Rudel and performed by the L.A. Opera. Soloists include Jorma Silvasti, Elzbieta Szmytka and Gwendolyn Bradley; 7.30pm; Nov 18, 21

■ MADRID

CONCERT
Fundación Juan March
Tel: 34-1-4354240
● Música de Cámara: del Dúo al Quinteto: violinist Alexander Detisov, violist Igor Suliga, cellist Alexander Osokin and pianist Eugenia Gabrieluk perform works by R. Schumann and Brahms; 12am; Nov 18

■ NEW YORK

JAZZ & BLUES
Blue Note Tel: 1-212-475-8592
● Dianne Reeves: the jazz singer is accompanied by David Torkanowsky, Steve Masakowski, Chris Severin, Ernie Adams and Munyungo Jackson; 9pm & 11.30pm; Nov 21, 22, 23, 24, 25, 26

■ PARIS

CONCERT
Maison de Radio France
Tel: 33-1 42 30 15 16
● Orchestre Philharmonique de Radio France: with conductor Olivier Guendet and pianist Yakov Kasman perform works by Stravinsky, Zimmermann and Waill; 8pm; Nov 18
Salle Pleyel Tel: 33-1 45 61 53 00
● Orchestre National d'Ile-de-France: with conductor Günther Neuhold and violinist Pierre Amoyal perform works by R. Strauss, Berg and Webern; 8.30pm; Nov 18
OPERA & OPERETTA
L'Opéra de Paris Bastille
Tel: 33-1 44 73 13 99
● Tosca: by Puccini. Conducted by Seiji Ozawa and performed by the Opéra National de Paris. Soloists include Galina Gorchakova, Plácido Domingo (on Nov 18) and Renato Bruson; 7.30pm; Nov 18, 21, 23
Théâtre du Châtelet
Tel: 33-1 40 28 28 40
● Moses und Aron: by Schoenberg. Conducted by Christoph von Dohnányi, directed by Herbert Wernicke and performed by the Opéra du Châtelet; 7.30pm; Nov 18

■ TORONTO

CONCERT
Roy Thompson Hall
Tel: 1-416-872-4255
● Toronto Symphony: with conductor Andrew Davis, soprano Gianna Rolandi, contralto Maureen Forrester and the Toronto Mendelssohn Choir perform Mahler's "Symphony No.2 (Resurrection)"; 8pm; Nov 18

■ UTRECHT

JAZZ & BLUES
Muziekcentrum Vredenburg
Tel: 31-30-2330233
● *16th Blues Estafette*: with performances by Sugar Pie de Santo, Little Cooper & Tha Drifters, Jimmy Beasly, Lavelle White, Tyrone Davis and John Lee Ziegles & J.W. Warren; 3pm; Nov 18

■ VIENNA

MUSICAL
Wiener Volksoper
Tel: 43-1-514442980
● *Kiss me, Kate*: by Cole Porter. Conducted by Michael Tomaschek and performed by the Wiener Volksoper. Soloists include Julia Stemberger and Marin Adorf; 7pm; Nov 17, 18

■ WASHINGTON

OPERA & OPERETTA
Opera House Tel: 1-202-416-7800
● Der Rosenkavalier: by R. Strauss. Conducted by Heinz Fricke and performed by the Washington Opera. Soloists include Helen Donath, Jeanne Piland and Eric Halfvarson; 7pm; Nov 18, 21, 24, 28 (2pm)

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Financial Times Business Tonight

Philip Stephens

The fragile facade

A single act of terrorism could destroy the peace process but to be cynical about Northern Ireland may be wrong

If you are of a cautious disposition stand firm with the pessimists. The guns have been silent in Northern Ireland for 15 months now, yet bridges have still to be built across the river of mistrust separating unionist from nationalist, Protestant from Catholic. Too many in the province can define themselves only in terms of their dismal past.

A permanent peace would disinherit the Sinn Féin thugs who wield baseball bats to crush bones and dissent in their own communities. It would isolate the empty-headed militants of the Protestant Orange Order who prefer to live with a victory on the battlefield three centuries ago than with peace today.

There are those in the IRA longing to return to their terrorist war. Each time Gerry Adams and Martin McGuinness meet a British government minister they are accompanied by one of the more ruthless members of the IRA's military command. This hard-faced chaperone is there not to protect them from British perfidy, but to ensure they make no concessions to the occupying power. He will not easily surrender his Armalite.

So it is easier to sketch out the circumstances in which the present ceasefire will fracture than to draw the outline of a permanent political settlement. But if you believe that the future can occasionally break free of history, ignore the latest threats from the Sinn Féin leaders. Every week that passes undermines the cause of violence. And Messrs Adams and McGuinness have crossed a line behind which they may find it impossible to retreat. Their's is an unforgiving organisation. They are safe only as long as the political process survives.

The present impasse in that process is complex. Sinn Féin demands unconditional admittance to all-party negotiations to shape a new constitutional settlement. John Major's government says Sinn Féin cannot take part in such talks with a gun under the table. It must first provide evidence of a willingness to dispose of the rifles and Semtex. It must discuss the means by which that would be done. Most importantly, some weapons have to be decommissioned before full-scale talks start.

From Mr Adams comes an unequivocal rejection. And from Dublin the rebuke that even to make such a demand is to display crass ignorance of republican history. The IRA might rid itself of weapons as part of a political settlement with the unionists. Ulster's Protestant majority after all consists of fellow citizens of the island of Ireland, which affords them a legitimacy in nationalist eyes not allowed to the British. But the idea of destroying weapons at Mr Major's bidding? Never.

To circumvent this boulder on the road to peace, clever officials in London and Dublin came up with what is known as the "twin-track" approach. The willingness of the IRA (and loyalist paramilitaries) to decommission their weapons and the ways that might be done would be examined by an international body, independent of the London government. In parallel, Sinn Féin would be invited to confidence-building talks with the other Northern Ireland parties to prepare the ground for full-scale negotiations. A target date would be set for those negotiations but without prior commitment on the part of the British government. The demand for a start to decommissioning would be put to one side to await the conclusions of the new body.

> If Mr Clinton is to be seen once again as the catalyst for peace around the world, Mr Adams must repay him with flexibility in the negotiations

This is as far as Mr Major will go. The unionists have warned him that they may reject even this compromise. David Trimble, visiting the prime minister in 10 Downing Street yesterday, has called instead for the government to establish an elected assembly in Ulster to chart the way forward. The Conservative whips at Westminister warn that to give further ground to the IRA would be to invite a massive rebellion on the government backbenches.

Sadly, it gets more complicated still. Back in September the London and Dublin governments came within an inch of embedding the twin-track approach in another of the joint declarations on which the ceasefire has so far been built. But John Bruton, the Irish prime minister, was warned by Mr Adams that to do so would be to invite Sinn Féin to abandon the political process. The IRA demanded a firm date for all-party negotiations. It insisted, impossibly, that the British army be included in the remit of the decommissioning body. So at the eleventh hour Mr Bruton withdrew from the planned summit with Mr Major. The intervening period has been marked by what the diplomats politely refer to as "some strain" in relations across the Irish sea.

The basic approach remains in place, however. It is too early to be sure, but Mr Major and Mr Bruton may well re-instate their planned summit within the next 10 days. Some of the differences between them would have to be fudged, but there is nothing new in that and the show would at least be back on the road. George Mitchell, the respected adviser to Bill Clinton on Irish affairs, would then be asked to head the decomissioning body. The issue of whether the IRA had actually to rid itself of some weapons in advance of constitutional talks would be deferred rather than solved. Mr Adams though would find his bluff called.

Intriguingly, the White House has for once been seen in London as a constructive player in this tortuous process. When Tony Lake, the president's security adviser, visited London a few weeks ago he hinted that Mr Clinton was looking for a dramatic breakthough to coincide with his planned trip to Ireland, north and south, at the end of this month. The crisis in Washington over the US budget may now cause the president to shorten, if not scrap, the visit. But even before the introduction of that extraneous uncertainty, US officials were playing down talk of an historic, three-way handshake between Messrs Clinton, Adams and Trimble.

Some pin the change to a salutary meeting between Mr Lake and Mr Trimble. Mr Lake was told that the easiest way for Washington to wreck a political deal was to interfere. At one point, he sought to impress on Mr Trimble the need for unionist politicians to take the IRA ceasefire on trust. "Have no worry on that score," came the reported reply, "We trust them more than we trust you."

There are signs too that the US administration is irritated by Mr Adams's refusal to compromise. It has given the Sinn Féin leader a platform and a fundraising permit. If Mr Clinton is to be seen once again as the catalyst for peace around the world, Mr Adams must repay him with flexibility in the negotiations.

All this, of course, adds up to a perilously fragile edifice, one that could yet be destroyed by a single act of terrorism. So yes, to be cynical about peace in Northern Ireland is to be safe. But maybe it is also to be wrong.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Gresham's Law does not apply

From Mr Keith Hudson.

Sir, Mr Keith Sykes (Letters, November 15) will not have to rewrite Gresham's Law when Mr Giles Keating'a e-money (Personal View, November 2) comes into circulation. The point is that the law does not apply anyway in a situation of free exchange.

However, Gresham's Law certainly applies when governments insist on fixed exchange rates. When kings used to make immense profits by alloying their gold coins with base stuff and then insisting that the populace treat the new coins just like the real thing, then, of course, people took no notice. They used the debased coins for trading and kept the old coins under their mattresses.

But, in Mr Keating's scenario, bad currencies, such as that in the UK, which is still being "alloyed" at a rate of 4 per cent a year, will certainly be driven out by any stronger currencies which keep to some objective commodity valuation.

By the way, may I criticise your headline to Mr Sykes letter? E-money will be just as real as real money.

Bytes on a computer hard disc will be just as acceptable as pieces of paper. You wait and see!

Keith Hudson,
6 Upper Camden Place,
Bath BA1 5HX

Germany must be tough on Emu

From Mr Jochen Murach.

Sir, I refer to Ian Davidson's article "Bonn ups the ante" (November 15). I am pleased to see that the German finance minister, Mr Theo Waigel, has taken the initiative to discuss the economic preconditions and the stability pact of European Monetary Union again.

For many Germans it is obvious that Emu is not desirable as a future currency. During the past 50 years the Germans have built up their D-Mark to its present strength and it has become a symbol of German power and industry. Nowadays, it is one of the few hard currencies in the world. Therefore, the fears of a weaker European currency are understandable; especially those of small private investors who have put their assets in the hard D-Mark. They are not interested in a "second-class" currency and they do not want to pay the price for the certainly less stable European currency.

For these reasons, the German finance minister should negotiate toughly the conditions of the monetary union with his EU partners, even if the launching of Emu is delayed until the next century. Otherwise, Emu could become a disaster.

Jochen Murach,
Rudolf-Guby-Strasse 1,
94032 Passau, Germany

EU customs union deserves support

From Mr Alan Berlind.

Sir, Edward Mortimer's plea for European parliament approval of a customs union between the European Union and Turkey ("A Turkish opening", November 8) prompts a few comments.

1) The European parliament's right to ratify external treaties ought to be viewed not as a problem or nuisance, but as an essential check on executive and administrative power.

The legitimate powers of the EU's only popularly elected officials cannot be held subsidiary to the terms agreed by the governments concerned, much less the "technical arrangements. . .in place".

2) I would be surprised if the concerns of MEPs about Turkey's human rights record were not closely connected to their view of "the overall political and economic impact the union would have on European interests". The establishment of a customs union guarantees nothing more but there is surely a presumption in favour of eventual membership and MEPs may well be more sensitive than senior bureaucrats to the desirability of keeping the EU's record clean as an association of true democracies.

3) The suggestion that Islamic fundamentalism is feeding off Europe's "stand-offish attitude" is valid to a point, but there is no evidence to support the notion that approval of the customs union will more than marginally affect the growing popularity of fundamentalism in Turkey.

Even the direction of the impact cannot be predicted with certainty.

4) Whether one supports approval or not, the failure to mention the massive long-standing Turkish occupation of 40 per cent of Cyprus as a factor in the decision is curious. Cyprus after all has a customs union with the EU and is on schedule for full membership.

All current members (and all governments in the world except Turkey's) recognise the sovereignty of the government of the Republic of Cyprus over the occupied areas.

A customs union may act as an incentive to Turkish enlightenment on both human rights and Cyprus and I support approval on that hope. Until that happens, MEPs must keep both issues on their agenda.

Alan Berlind
(US Foreign Service Officer, retired),
Le Champ Neuf,
03320 Couleuvre,
France

UK will lose out to Continent if Terminal 5 is not built

From Mr Anthony Pelling.

Sir, Mr Oliver Parr, in his letter of November 11, suggested that the issue of whether or not Terminal 5 should be built at Heathrow is a choice between British Rail's corporate convenience and the environment. There is another choice to be faced.

Either the UK makes the best use of Heathrow's advantages or it will allow trade and jobs to transfer not to the UK regional airports but to Paris, Amsterdam and Frankfurt. At present airlines and their customers still seek to have access to Heathrow as the primary gateway to Europe and beyond. There is little prospect of persuading travellers from abroad to move their loyalty to other London airports. They prefer the easy and level walk to the taxis at Heathrow and the direct trip to their first destination. The trek to the train at Gatwick and the changes at Victoria and Liverpool Street are intimidating as against the alternative of a private cab ride. Many business and holiday visitors to London do not have positive associations with travel by train or bus. Only a few become converts to London Underground and London Transport's buses.

The UK would do well to capitalise on Heathrow's advantages and soon, as the competition is close behind. It would be one way to afford more to improve the already pleasant British environment.

Anthony Pelling,
3814 Seminary Avenue,
Richmond,
Virginia 23227, US

A prescription for efficient corporate accountability

From Mr Donald Butcher.

Sir, Your leader ("Backlash after Greenbury", November 13) is concerned quite rightly lest the successor to the Cadbury committee on corporate governance focuses more on "bureaucratic prescription than efficiency and accountability". You say "it is hard to be optimistic about what comes next". May we make some suggestions?

Since exhortation and non-statutory sanctions have probably run their full course – maybe even overrun, as some suggest – surely it is time to re-examine the process by which the duties owed by directors to shareholders and shareholders to directors are seen to be fairly and publicly discharged. That process, enshrined in law for 151 years, is the annual general meeting.

It badly needs reform. However, its main structure – voting on resolutions – is, in theory, the only way that mankind has discovered for delivering an open and fair democratic decision accepted by all. In practice – *pace* British Gas – it sadly does not work quite like that.

One or two suggestions for reform to start with. First, abolish proxy voting so that shareholders would have to attend, or be represented, at the meeting. Individual shareholders would be given the right to appoint a representative in the same way institutional shareholders have that right (Section 375 of the Companies Act). Second, give shareholders the right, subject to certain safeguards, to circulate resolutions at the company's expense for voting on at general meetings. We are pleased the Department of Trade and Industry is to issue a discussion document about this reform.

Third, make shareholders responsible for voting an aggregate sum for all services provided by directors – whether provided as executive officer, consultant or director or whatever. Presently, voting is required by most companies' articles to approve a sum just for their services as directors. This reform would merely reflect the original intention of the Companies Acts.

Such reforms should not increase company costs as imposed codes have done and they would begin to shift responsibility for good corporate governance back on to the shareholders where it should properly rest.

Donald Butcher,
chairman,
UK Shareholders' Association,
12 Burgh Heath Road,
Epsom, Surrey KT17 4LJ

President strains at the leash

Congress may thwart Clinton's desire to send troops to Bosnia, says Bruce Clark

Whatever happens at the Bosnian peace talks in Dayton, Ohio, it would probably be a mistake for anyone to order champagne. Far from lasting peace, a new disaster could be looming. But this time US political infighting, rather than Balkan chauvinism, would be to blame.

The reason for this dark prognosis is that President Bill Clinton, having knocked Balkan heads together, may now be denied success in his second, self-imposed challenge: mobilising broad support at home for the deployment of up to 20,000 US soldiers to police a settlement.

The president's efforts to explain this huge enterprise to a deeply sceptical public and Congress have been intermittant. But whenever he has tried to make the case, he has set the stakes very high indeed – apparently because he senses no other approach would work.

At issue, Mr Clinton says, is not only peace in Bosnia, but the stability of the entire region; Washington's rola in Europe; and the continued functioning of Nato. This dramatic case was spelt out a few days ago in a nine-page letter from the president to one of his main Republican tormentors, Mr Newt Gingrich, the House Speaker. Mr Gingrich had stated that support in the legislature for sending troops to Bosnia was "virtually nil".

The letter laid out the arguments for deployment in the starkest terms. First, if the war resumed, there would be a "very real risk that it could spread beyond Bosnia, and involve Europe's new democracies as well as our Nato allies". Second, the letter said, only US troops could prevent this happening: "If our commitment to helping implement a peace is broken, there will be no peace in Bosnia." Third, as a side-effect of US backsliding, the western security system could be compromised: "If we do not do our part in a Nato mission, we would weaken the alliance and jeopardise American leadership in Europe."

Powerful as these arguments sound, it is far from clear that they will convince the new generation of Republican legislators, to whom the old, Nato-based assumptions of postwar foreign policy are a closed book. Some Republicans feel an irresistible temptation to score political points when they see a president who had previously described the Balkans as a hopeless, murderous mess calling for a military enterprise which ha admits to be dangerous and cannot precisely define.

The arguments used by Mr Clinton to support the deployment may be exaggerated. Perhaps peace could have been secured by some means other than a large US ground force. But the president's use of dire warnings may turn out to be self-fulfilling.

On present indications, tha proposed US force may never be despatched at all; or it may be despatched with conditional approval from the Senate but open opposition from the House of Representatives; or it may be despatched with an approval so grudging that consent will be withdrawn as soon as the force runs into difficulty, as happened in Somalia.

Mr Clinton has insisted on his right to send troops to Bosnia without Congressional approval – an argument which may find willing ears among senators who aspire to the White House themselves. But rambunctious types in the House are already working to deny funding to any Bosnia mission which proceeds without their approval.

If peace fails to take hold, for want of a peace force, the most immediate result will be a battle for the northern Bosnian town of Banja Luka. This could create hundreds of thousands more refugees, many of whom could die on the road. In diplomatic terms, a failure of US will would create a vacuum in Bosnian policy which the Europeans – who stepped aside when the Americans took centre stage – could not reoccupy.

Among its allies, the US would stand accused of having sabotaged the old Europe-led policy of containing the war, and then failing to put anything in its place. The idea of enlarging Nato could become a sick joke: if the best Washington can do for a European trouble spot is promise troops and fail to deliver them, the prestige of the western alliance would plunge.

All these lofty considerations could fade into the background when compared with the opportunity for US politicians to put Mr Clinton in his place.

Even if Mr Clinton gets his way and US troops are successfully deployed, there are sobering lessons in this story for the Europeans. Faced with "the most dangerous threat to European security since world war two" – the president's words – Washington's political class has proved deeply reluctant to put US lives at risk. As time goes by, US enthusiasm for costly engagements in Europe is hardly likely to increase.

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Friday November 17 1995

Juppé's social security cuts

Mr Jacques Chirac's transformation from populist candidate to today's devotee of orthodoxy appears complete. His prime minister, Mr Alain Juppé, has now proposed measures, radical by French standards, to control the deficit of the social security system. These must be assessed against two tests: whether France will meet the Maastricht treaty's fiscal criteria in 1997; and whether the longer-term difficulties of social security finances have been resolved. They seem to pass.

Mr Juppé plans to cut the general government deficit from 5 per cent of gross domestic product this year, to 4 per cent in 1996 and the Maastricht treaty's 3 per cent in 1997, the witching year for economic and monetary union in 1999. Mr Juppé has argued that the social security deficit, forecast at FFr61bn (£8bn) for 1996, had to be halved for these targets to be achieved. Since he proposes to cut the deficit to FFr17bn in 1996 and create a small surplus in 1997, he should have a margin to spare.

The approach has been astute. Spending reductions exceed increased charges by three to two. Further taxes on labour have been avoided. The government has seized more effective control of the system. Finally, pain is broadly spread: by levying a 0.5 per cent tax on incomes, hypothecated towards reducing social security debt; by imposing higher health insurance charges on pensioners and the well off unemployed; by taxing family allowances; by tightening controls on medical costs; by raising public sector pension contributions; and by imposing higher contributions on companies.

Inevitably, two of the unions, Force Ouvrière and the Confédération Générale du Travail, have called a general 24-hour strike in protest. But the Confédération Française Démocratique du Travail has refused to join. Given these splits and its ability to pass measures by decree, the government should obtain its desires.

Will it also obtain the lower deficits it desires? Yes, provided growth holds up. Since Mr Chirac swore eternal fidelity to Emu and *rigueur* last month, the interest rate differential vis à vis Germany has shrunk on both three-month and 10-year money. Yesterday, the intervention rate was cut by 0.2 percentage points to 4.8 per cent. Nevertheless, the fiscal tightening might undermine growth and so prove self-defeating.

Much political capital is invested in the fiscal target for 1997. As important is whether social security deficits have been placed under permanent control. It seems that they should be, at least until 2010, when the baby-boom generation retires. Yet France will almost certainly retain the highest ratios of public spending and revenue in the Group of Seven leading industrial countries. Maybe Mr Juppé has made social security solvent. But France is condemned to labour under high taxes and public spending.

Eternal life

What is the secret of corporate longevity? Securing the right succession at the top must be a crucial factor. But as Unilever has demonstrated in naming Mr Niall FitzGerald as the next chairman of its UK arm, the most durable companies are not necessarily strict followers of the conventional wisdom on corporate governance and boardroom procedure.

The chairmanship of the Anglo-Dutch consumer products group is traditionally in the gift of a triumvirate: the executive chairmen of the twin parent companies and one other top executive. This is the very opposite of the nomination committee advocated by Britain's Cadbury report, which is required to have a majority of non-executive directors. Indeed, a powerful case could be put that the best performers, both at corporate and country level, are those which are furthest removed from the normal Anglo-American governance disciplines.

The most striking instance here is Japan, where the boards of large companies are peopled with geriatrics. Non-executive directors are a rarity and pervasive cross-shareholdings rule out hostile takeovers. Yet it is hard to call this insider-dominated Japanese system a failure.

So, too, with the Anglo-Dutch giants like Shell and Unilever. They are clearly exempt from takeover discipline, and the complex legal structures under which they operate are inimical to non-executive directors. Yet they appear to retain a remarkable capacity for self-renewal.

Even in the United States, some industrial heavyweights insist on flexibility for the unitary board over both the succession and roles of the chairman and chief executive. The board guidelines of General Motors, where corporate life was nearly curtailed in the 1980s, are a well-known example.

On the issue of succession, they say: "The board should be free to make this choice any way that seems best for the company at any given point in time. Therefore, the board does not have a policy, one way or the other, on whether or *not the role of the chief executive* and chairman should be separate..."

Yet this need not mean that Cadbury is wrong, or that adherence to conventional Anglo-American norms in governance is counterproductive. The long-lived Anglo-Dutch and Japanese companies have simply found alternative ways of achieving the balance between managerial freedom and accountability for which Cadbury was searching. At Unilever, the tensions that arise from dual nationality may act as an additional check and balance, as does a clutch of outside advisory directors; and the collegiate style of management does not preclude the appointment of a risk-taker like Mr FitzGerald. The company will still be there, one suspects, when less bureaucratic giants like Hanson are no more than a distant memory.

Oskar redivivus

Fortune favours the brave, especially when their timing is good. Oskar Lafontaine's bid for the chairmanship of Germany's Social Democrats yesterday was brilliantly timed, and he was rewarded with a stunning victory.

The party's disenchantment with its incumbent leader, Rudolf Scharping, was hardly a secret – and hardly surprising, given the miserable 36 per cent support currently accorded it by the opinion polls. But his chief internal critics, Gerhard Schröder and Heide Simonis, were holding back from a direct challenge which would have further strained the unity of an already divided party, and made it appear their criticisms were motivated by personal ambition rather than principle. Mr Lafontaine, having held aloof from the latest round of in-fighting, gained the full benefit of surprise, and was able to present himself as a healer of the party's wounds.

Although Mr Scharping remains for the time being the party leader in the Bundestag, Mr Lafontaine will inevitably now be seen as the man in charge. If he succeeds in pulling the party together, and in reversing its decline in the polls, he will make himself its obvious choice as candidate for federal chancellor in the 1998 general election. That is a role he has played before, in 1990, when the SPD secured its lowest share of the vote (33.5 per cent) since 1957.

But that defeat will not necessarily be held against him now. It occurred in the year of German unity, which the electorate inevitably (and to a considerable extent rightly) regarded as Chancellor Helmut Kohl's personal achievement. Moreover, Mr Lafontaine warned that the cost of rapid unification would be much higher than Mr Kohl was then prepared to admit. That was not a popular message at the time, but it proved to be true, as most west German voters would now be heartily willing to admit.

Mr Lafontaine is undoubtedly a more effective politician than Mr Scharping, as their contrasting performances in addressing the party congress on Wednesday clearly illustrated. It would also be far too simple to portray him as a tired warhorse of the old left, though it is natural that the parties of the present governing coalition should try to do that. At times in the past he has been in the vanguard of those questioning socialist taboos.

He is in fact hard to pin down ideologically. That may give him advantages as the SPD searches for plausible coalition partners. It may also lay him open to the accusation of being opportunistic and untrustworthy, especially if he appears to flirt with the former communists of eastern Germany. But the greatest challenge facing him is the need to redefine the image and *raison d'être* of a party which, ever since it was driven from power in 1982, has seemed increasingly unsure of its role.

The slippery business of soap

Unilever's new boss will give it the 'right good shakeup' many believe the group needs after last year's detergent debacle, says **Roderick Oram**

When Unilever is good, it can be brilliant. In less than a decade the Anglo-Dutch consumer products group has built the world's largest ice cream and cosmetics businesses, both sporting brisk growth and ample profits.

But when it is bad, it can be awful. In less than six months last year, Unilever's technically flawed Power range of detergents did long-term damage to the group's profits, market share and credibility with consumers.

Nobody learnt more from the debacle than Mr Niall FitzGerald, global head of detergents. He speaks forcefully to his colleagues of Unilever's need to simplify its complicated management structure and sharpen its business skills, and he is being given the chance to put his ideas into practice: Unilever announced on Wednesday that he will be promoted in January to the "special committee", Unilever's management troika, and then in August to the chairmanship of Unilever's UK arm.

"Unilever is a fantastic business with some fantastic people," says one of Mr FitzGerald's colleagues. "But it needs a right good shakeup."

One senior Unilever executive adds: "There's been a lot of hallway talk in recent years – 'Should we do it this way? Should we do it that way?' – and we've changed bits and pieces in European foods and detergents. But we need thorough change."

Mr FitzGerald's first task will be to spend the first seven months of next year reviewing Unilever's senior management structure. Overlapping managements for countries, regions and product categories are a source of confusion and frustration throughout the group.

The 50-year-old Mr FitzGerald, *who has experience of managing* complicated cross-border businesses and advertising, is expected to advocate sweeping changes to the way the company is run to make it clearer and simpler. Power's failure will be seen as a defining moment in Unilever's history.

Implementation will come after Mr FitzGerald becomes chairman of Unilever plc when Sir Michael Perry retires in August. Although he is likely to face opposition from some senior managers on both sides of the North Sea, Mr FitzGerald can count on the support of Mr Morris Tabaksblat, chairman of Unilever NV, the Dutch arm of the group.

Agonising over succession and management structure has also gripped Nestlé and Procter & Gamble, the other two members of the trio of pre-eminent global consumer goods companies.

All three believe passionately that their brands will triumph if they can tempt consumers with new products. But speedy innovation requires plenty of science, money and management. Manufacturing must be particularly efficient so that the products offer the company good profits, retailers healthy margins and consumers good value.

Unilever's strenuous efforts to achieve these aims since the late 1980s have been very mixed. First came a big shift in power from country managers to the managers of product categories and regions.

Next came "Beethoven", as Unilever called the revamp of its European manufacturing, for which it took an exceptional charge of £305m in the 1990 accounts. Production costs fell, but retail prices also weakened in the recession and spending on advertising and marketing grew rapidly. Beethoven delivered next to no improvement in profits.

Then came "Encore", a further European restructuring, bringing a £490m hit to 1993's accounts. Two years on, the first meagre fruits of it are trickling through to the bottom line.

In a change of tactics, Unilever talks now of such restructuring as part of a continuing business process, with the cost coming straight out of trading profits instead of extraordinary charges. The City expects Unilever to spend some £200m a year in this way for the rest of the decade to improve its efficiency.

The Power line of detergents was the first big test of a new pan-European management's ability to bring a technologically advanced product swiftly to market across the continent. It was Unilever's attempt to wrest back leadership of the European detergent market it lost to P&G back in the early 1980s. To that end Unilever spent some £200m on audacious science, product development and new manufacturing plants before rolling out Persil Power and Omo Power across 11 countries in eight weeks early last year.

But a catalyst in them reacted badly with a handful of dark dyes, causing some colours to fade and textiles to weaken. Pouncing on the defect, P&G waged an merciless battle against both Unilever and its new products.

"Somewhere between research and marketing, something went wrong . . . under the normal pressure to be first to the market," Unilever NV's Mr Tabaksblat said last autumn.

The main lessons Unilever learnt were the necessity of even more rigorous product testing regimes, more discipline in managing the innovation process, ever stronger links with external parties such as dye manufacturers and retailers and more effective communication with the press and consumers.

Improved management of the sort envisaged by Mr FitzGerald would be aimed not only at avoiding the problems associated with Power, but would also generate cash for future investments. The group's capital spending is running at about £1.5bn a year with acquisitions adding a further £750m. It managed that last year with only a minor increase in debt, but this year net debt will rise by some £450m to £2.1bn, according to Mr David Lang, an analyst with stockbrokers Henderson Crosthwaite.

To achieve greater simplicity, Unilever will probably dispose of some of its more peripheral activities. At present, the group's products run from margarines, ice creams, sauces and other foods through shampoos, soap, cosmetics and other personal products and on to detergents and specialty chemicals.

"I'd be astonished if in five years time under Niall and Morris, Unilever wasn't more focused," one of Mr FitzGerald's colleagues says.

Nowhere is the issue of marshalling enough money and management more pressing than in emerging markets. Take China, for example. In just a few years, Unilever has pushed its Omo detergent into more than 100 cities despite difficulties posed by the country's inadequate infrastructure. Head-to-head against P&G's Ariel, Omo has grabbed nearly 50 per cent of the Shanghai market and is the leading international detergent brand across China.

Unilever, Nestlé and P&G, in intense competition with each others for billions of 21st century consumers, are pouring huge resources into China and scores of other developing markets in Asia, Latin America and eastern Europe.

"Those markets are growing so fast for Unilever that the overseas tail is going to start wagging the north Atlantic dog," says Henderson Crosthwaite's Mr Lang.

Unless it strikes the right balance between central control and freedom in the field Unilever could fail to maximise its emerging market potential. "If it doesn't pay attention to its fantastic franchises, it'll get whacked by the competition," Mr Lang adds.

Quite what senior management structure to address these myriad pressures Messrs FitzGerald and Tabaksblat will devise and implement is already a subject of intense speculation around the Unilever world. The guiding principle several senior colleagues have preached in recent days is clarity – of responsibilities, reporting lines and product lines.

"It can't be a terribly simple structure because we are a very complicated business but it can be much clearer," one Unilever executive says.

With this will also come changes of management style. By all accounts Mr FitzGerald and Mr Tabaksblat were deeply affected by the Power failure, turning into even tougher and less forgiving executives. Anybody exercising their new-found freedoms under the new structure will pay the price in greater accountability and responsibility.

Those who were comfortable with the collegiate ways of Unilever may find their working lives quite changed. Says one close observer of FitzGerald: "The path forward will have some bodies on it."

The giants limber up

In more than a hundred countries and thousands of product categories around the world, Unilever competes ferociously with Nestlé and Procter & Gamble. Only these three companies have the range of products and the resources to dominate both mature and emerging consumer markets.

With histories dating back to the 19th century, each has proved adept at meeting constantly changing conditions. But over the past 10 years, business has become ever more demanding. Mature markets have stagnated and competition, particularly from retailers' "own-label" brands, has intensified. In emerging markets, home to billions of 21st-century consumers, establishing new businesses devours huge management and financial resources.

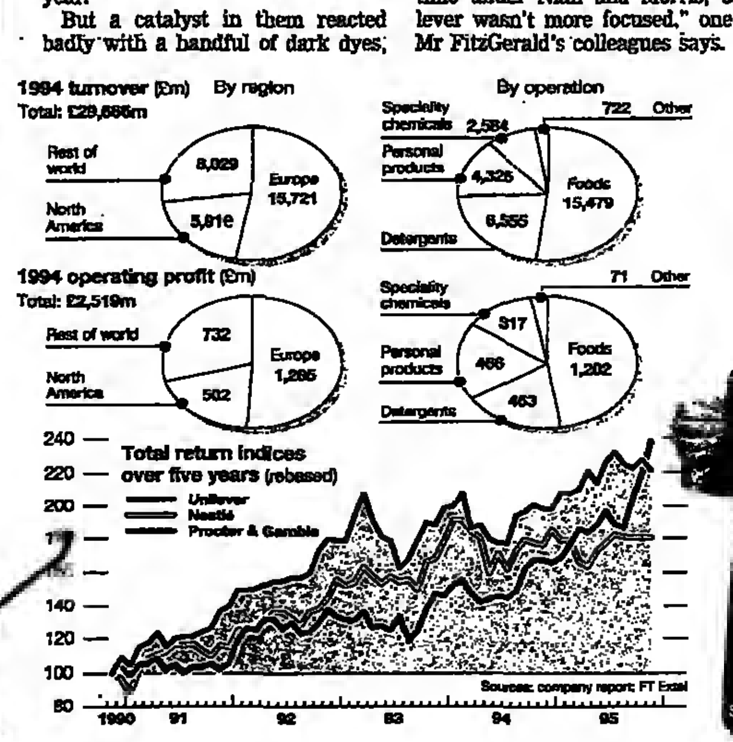
One measure of their success is the wealth they have generated for their shareholders. But none of the three managements can be fully satisfied – many companies in other sectors have outperformed them – and all three are preoccupied with choosing the right senior people to meet new challenges.

Unilever started in soap and margarines in the UK and the Netherlands. Still a large part of the group, these products generate only modest profits in mature markets. Critics say Unilever, created out of the 1929 merger of Lever Brothers of the UK and Margarine Unie of the Netherlands, is a company where executives focus too much on internal issues and too little on their markets and customers.

At home in Switzerland, Nestlé is still seen more as an institution than an enterprise. The world's largest food company, it is badly bogged down in many marginally profitable businesses while a handful of products – notably instant coffee – contribute a large share of its earnings.

P&G is the quintessential American company, both admired and disliked for its aggressive tactics in the marketplace. Thanks to its origins in soap-making, it is more heavily concentrated in detergents and toiletries than Unilever, and has only a small food business. Analysts say it needs to develop new product lines and to match the international reach of Unilever and Nestlé.

Niall FitzGerald



Sir Michael Perry Morris Tabaksblat

· O B S E R V E R ·

Lebensraum for Kohl

■ Even in far-flung Vietnam, German chancellor Helmut Kohl's vital statistics are no laughing matter.

The hotel where the bulky German leader spent last night – during a two-night stopover in Hanoi – is a drab communist structure which was donated to Vietnam by Cuba's Fidel Castro in 1973.

Unfortunately the place was not designed for guests the size of Kohl. It's accustomed to accommodating the more delicately proportioned Vietnamese.

So when the German protocol people accompanying Kohl asked what could be done to make his night more comfortable, the management of the Thang Loi – it apparently means "victory" – hotel pledged to do their best.

And so they did: they re-built the entire bedroom. A new bed was purpose-built; the tiny shower compartment was expanded. To top it all, a large hole was knocked in the wall, making space for a new door.

Kohl's aides say that he was exceptionally grateful. To prove it, he has had his people ship in from Germany 320 foot-long German sausages, for a special lunch today for students at Hanoi's Technical University.

Diplomacy certainly moves in mysterious ways.

Paris ablaze

■ The strange blue and yellow illuminations on the Gare du Nord in Paris that appeared last night, and which are due to last throughout the coming week are apparently the French railways' tribute to the first anniversary of scheduled services on Eurostar through the Channel tunnel.

The birthday was actually three days ago, on November 14. But French officials reckon it would have been tactless to launch the festivities ahead of the country's delicate debate on social security reform, what with students and others in the streets.

Mind you, given the months of delays in opening the train service, perhaps two days' delay isn't so bad after all.

Keep plodding on

■ Modality, shmodality – who's counting, so long as we're all pals? The 18 members of the Asia Pacific Economic Cooperation forum, who have been meeting in Osaka, have succeeded in elaborating a blueprint to free all trade in the region by 2020, or 2010 for advanced economies. Now for the hard part.

With a plan embracing such diverse countries as Papua New Guinea and the US, a degree of terminological inexactitude was perhaps inevitable. Thus Japanese officials in Osaka fought shy of defining what they understand by free trade. Far better, they suggested, in a Zen-like fashion, to start on the road to the goal, than to be obsessed with defining the goal. Thus the accord contains phrases like "flexible treatment in terms of modality" – Apec-speak for continuing to protect Asia's more cossetted farmers.

Being an advanced economy, presumably Japan's rice farmers face the daunting prospect of being exposed to competition by 2010? Don't bet on it. One forum official admitted that, when it came to defining modality, there were different opinions.

Penalty shoot-out

■ Jubilation broke out across Turkey following the national football team's 2-2 draw against Sweden on Wednesday night. The draw means Turkey qualifies for the finals of the UEFA football championships in Birmingham next year. The excitement is understandable; football-crazy Turkey hasn't made it to the finals of any major international football championship since the 1954 World Cup.

But there were other reasons for celebration. To begin with, no one was killed by stray bullets. Turks have recently taken to firing guns into the air to celebrate soccer victories, often claiming the lives of those unwise enough to watch the fun from their apartment balconies. This time only six people, two of them children, were wounded by stray bullets..

The players also had cause to give thanks, as they're being handsomely rewarded for their efforts. The national football federation is coughing up $10,000 for each team member, while prime minister Tansu Çiller and her associates are reportedly offering a further $90,000.

Who knows? It might even turn out to be a red-letter day for Tanju Çolak, a popular former football star now cooling his heels in an Ankara jail for smuggling a Mercedes into Turkey. Maybe the Çiller-ites will spring an amnesty for him. . .

Stiff opposition

■ Nel van Dijk, a Dutch MEP and the European parliament's leading campaigner for safe sex, recently distributed 625 condoms to her fellow MEPs, part of an EU programme to help combat AIDS. The campaign had hit the Internet, she informed fellow MEPs. There they could find all the do's and dont's about safe sex, including a video of a man fitting a condom. For those unfortunate enough not to have access to the Internet, she added: "I also have one on a floppy."

Not a dry eye in the house.

The Financial Times

50 years ago

US Rubber Company's losses
One out of every five and a-half trees on the United States Rubber Company's plantations in Malaya and Sumatra have been destroyed, according to Mr. John W. Bicknell, managing director of the plantations. This meant a loss of 1.8 million trees out of 10 millions standing on the plantation at the time of the Japanese invasion. Pre-war planted area was 102,000 acres. Mr Bicknell explained that this loss was due largely to neglect and to the cutting down of some trees in some areas for planting food crops by the Japanese.

Post-war recipe
There can be no doubt that industrial research was not always given the high status in Britain before the war that was accorded to it in America and Germany. The further point was made in yesterday's presidential address to the Institute of the Plastics Industry by Mr W.F. Lutyens, a director of Imperial Chemical Industries, that both the Americans and the Germans had shown themselves in the past prepared to construct pioneer plants of large size: a bold policy, but one worth the gamble.

FINANCIAL TIMES
Friday November 17 1995

Shares rise after Juppé welfare reforms but unions call protest strikes

French banks cut interest rates

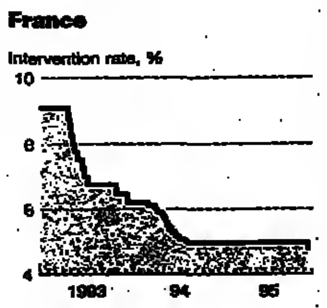
By David Buchan and John Ridding in Paris

France's central and commercial banks were yesterday quick to salute the Juppé government's welfare reforms with interest rates cuts, but two big union federations have called protest strikes for later this month.

Prime Minister Alain Juppé'e bold welfare spending cuts and charge increases, aimed at bringing the social eecurity deficit from FFr64bn ($13bn) this year into surplus in 1997, drew praise from his party and surprised *political opponents.*

For the first time since July 1994, the Bank of France yesterday lowered its intervention rate, which sets the floor on money market rates, from 5 to 4.6 per cent. It also trimmed its 5-10 day "repo" rate from 6.35 to 6.10 per cent. The Paris Bourse's CAC-40

France



Source: FT Extel

share index jumped by 1.6 per cent *in heavy trading to close at* 1,905. Earlier in the day, the country's three leading commercial banks – BNP, Société Générale and Crédit Lyonnais – anticipated the central bank move by cutting their own base rates from 8.2 to 7.8 per cent.

The main opposition Socialist party quickly dubbed the Juppé plan "anti-social" but its spokesman indicated the party was still assessing the plan, which was "stronger than was expected".

Mr Juppé cautioned that the country still needed persuasion. "I have to make the French people understand what needs to be done," he said in a newspaper interview. "If two million people take to the streets, my government will not survive."

The Communist-leaning CGT union federation called e 24-hour general strike for November 24, while the Force Ouvrière (FO) *federation has set November 28* as its day of protest.

Numerically weak overall, French unions remain strong in the public sector where Mr Juppé plans to extend the period of pension contributions to the 40 years required of the private sector.

The FO is particularly entrenched in the administration of health insurance. Its secretary ganeral, Mr Marc Blondel, described the Juppé plan, which will put eocial security under parliamentary control for the first time, as "the biggest grab [by the state] in the Republic's history".

As part of his strategy to spread the pain of reform, Mr Juppé is also asking the pharmaceuticals industry to pay a FFr2.5bn charge next year. Some companies reacted angrily but most said they needed to see how the charges would be determined *before calculating the impact* on their business.

The main concern was whether the charge is set by market share, or adherence to price and volume contracts agreed last year.

World stocks, Second section

Russian debt

Continued from Page 1

of England for 1992 and 1993 arrears.

The balance of the interest arrears will be exchanged for floating rate notes of 20 years maturity with a seven-year grace period.

Mr Jonathan Hoffman, co-head of emerging markets research at CS First Boston, said the "deal is a major step on the road to Russia becoming creditworthy in the international capital markets".

"But *this* is not the *final* word – people are now looking for the implementation, which depends to a large part on the president and the Duma [the Russian parliament] agreeing the deal," Mr Hoffman said.

Mr Davydov said progress was also being made in talks with the Paris Club of western government creditors over rescheduling a further $40bn of debt. Negotiations this week had confirmed creditor countries' willingness to restructure their debt along the lines of the London Club agreement, he added.

China hails US initiative to resolve impasse over WTO

By Guy de Jonquières and William Dawkins in Osaka

China yesterday hailed a US diplomatic initiative aimed at resolving the impasse over Beijing's entry to the World Trade Organisation.

The US initiative, the result of talks last month between President *Bill Clinton and Chinese* President Jiang Zemin, came in e US paper spelling out the commitments required by WTO membership.

A senior US official said the paper was intended "to provide e *road map and e means, on the* basis of which [China's WTO] eccession could proceed". At the same time it was a means by which China could understand the "very high level of commitment" needed to accede.

Mr Long Yongtu, *China's assis*tant minister of internetional trade and chief WTO negotiator, said the document "incorporates a lot of flexibilities". "We are hoping for progress," he said at e ministerial meeting of the Asia Pacific Economic Co-operation (Apec) forum.

Mr Mickey Kantor, US trade representative said he would discuss the paper and how to proceed with it at a meeting with Ms Wu Yi, *China's* international trade minister, tomorrow. But he did not expect Ms Wu to respond in detail.

Mr Kantor said Washington had not shifted its position on Beijing's WTO membership and *repeated* the *long-standing US* demand that China join the organisation on "commercially reasonable terms".

The confidential document is understood to require that China embrace fundamental principles *such as* economic transparency before joining the WTO. But it is believed to hint that the US is ready to allow Beijing more time to adjust to other WTO obligations. US officials said the paper was prompted by lack of progress in China'a WTO negotiations. These have been suspended since the summer, but are due to resume in Geneva next month.

Beijing has repeatedly accused the US of thwarting its WTO *entry, which it had hoped would* be agreed by the end of last year. The two sides yesterday refrained from the angry rhetoric which has characterised recent pnblic exchanges.

The impression of e thaw in *relations was reinforced yester*day by the restraint with which Beijing eccepted e compromise designed to meet US difficulty in guaranteeing China access to its market. This is part of Apec's plans to achieve regional free trade by 2020.

The Apec summit, Page 6

Bangkok offers investors cash lifeline

By Ted Bardacke in Bangkok

The Thai government yesterday caved in to pressure from local stock market speculators and pledged $1.2bn in government funds to beil out investors squeezed by a slide in Bangkok share prices.

The unprecedented payout, whicb alarmed economists and foreign stockbrokers, came a day after a bankrupt investor attempted suicide at the bourse by sbooting bimself in the neck. He said be bad lost Bt30m ($1.2m).

Having bought on credit, such investors have had to sell at a loss during the stock market's 20 per cent decline since mid-July wben a new government took office following elections.

Tbe ceotral bank will now make $400m in soft loans eveileble to these investors "to alleviete their financial burden". The three-year loans will be made at 10 per cent interest, at least two percentage points below the country's prime lending rate.

Ths bank will also make $800m available at the same concessional rates to brokerage companies to inject into the market in an attempt to stop the exchange'e slide. In an additional measure designed to enhance liquidity, the initial amount required to buy "on margin" will be reduced from 40 per cent of the stock's value to 30 per cent, making it easier to speculate in the future.

The sum to be lent in the scheme is likely to benefit no more than about 10,000 investors.

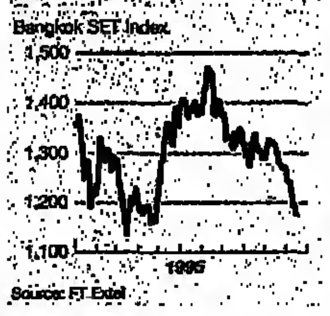
Analysts were divided over wbether the moves would be enough to prop up the market.

But most observers said the government should not intervene in the market so directly. "This is ludicrous. How do they expect to be taken seriously?" asked a foreign broker, noting that his detailed company research was now "worth nothing" because the interventiun would skew the market's performance.

In going against its well-publicised policy of clamping down on lending to speculative areas of the economy, the central bank argued that it wanted to prevent e potential crisis et brokerage houses which might have clients unable to make their margin payments. But e stock exchange official said he had not detected any such cash problems among member brokers.

Other central bank and stock exchange officials said they were pressured into the move by Mr Surakiart Sathirathai, finance minister, who is fighting resignation calls because of the stock market's decline.

Thailand



Source: FT Extel

World stocks, Second section

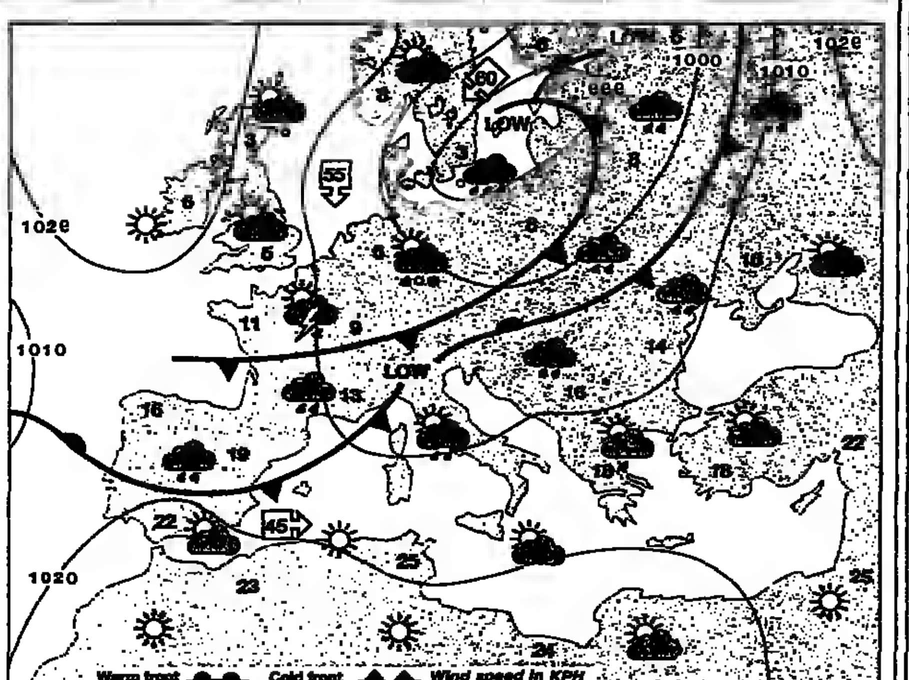
FT WEATHER GUIDE

Europe today

A strong northerly air flow between low pressure over southern Sweden and e high over Iceland will direct cold and unstable air into Germany and the Benelux. Numerous showers with hail and sleet will develop as the cold air moves across the North Sea. The British Isles will have hail showers in the north-east and plenty of sun in the south-west. Central Scandinavia will be clear and cold but southern Sweden will have plenty of snow and rain in the extreme south. More rain is expected in south-eastern parts of France, the Iberian peninsula and the Alps, where there will be snow on higher ground. Hungary and Croatia will have rain.

Five-day forecast

Very cold air from the north will move further into central Europe during the next couple of days. There will be a lot of snow on higher ground. The British Isles will be mainly dry with sunny spells. The Low Countries will have rain and hail with temperatures mainly above freezing. Northern Europe will turn wintry with heavy snow showers forming over the Baltic Sea and moving inland. Portugal and northern Spain will stay wet.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	10	Caracas	fair	32	Faro	drzzl	21	Madrid	fair	15	Rangoon	cloudy	30
	Celsius		Belfast	sun	5	Cardiff	sun	6	Frankfurt	rain	6	Majorca	sun	22	Reykjavik	drzzl	3
Abu Dhabi	sun	31	Belgrade	shower	15	Casablanca	sun	23	Geneva	rain	11	Malta	sun	22	Rio	cloudy	26
Accra	fair	32	Berlin	shower	5	Chicago	rain	3	Gibraltar	fair	20	Manchester	fair	5	Rome	shower	21
Algiers	sun	22	Bermuda	shower	24	Cologne	shower	7	Glasgow	sun	6	Manila	cloudy	31	S. Frsco	sun	18
Amsterdam	shower	5	Bogota	drzzl	15	Dakar	sun	33	Hamburg	shower	5	Melbourne	fair	28	Seoul	sun	12
Athens	sun	20	Bombay	sun	34	Dallas	fair	23	Helsinki	snow	-2	Mexico City	fair	21	Singapore	thund	30
Atlanta	fair	15	Brussels	shower	8	Delhi	sun	28	Hong Kong	fair	24	Miami	sun	23	Stockholm	snow	0
B. Aires	thund	22	Budapest	rain	12	Dubai	sun	32	Honolulu	fair	28	Milan	shower	11	Strasbourg	rain	0
B.ham	sun	4	C.hagen	shower	5	Dublin	sun	5	Istanbul	sun	17	Montreal	fair	-2	Sydney	cloudy	24
Bangkok	cloudy	31	Cairo	sun	24	Dubrovnik	rain	17	Jakarta	cloudy	31	Moscow	rain	5	Tangier	fair	22
Barcelona	fair	21	Cape Town	fair	22	Edinburgh	fair	5	Jersey	fair	8	Munich	rain	8	Tel Aviv	sun	25
									Karachi	sun	32	Nairobi	shower	25	Tokyo	fair	15
									Kuwait	sun	28	Naples	fair	19	Toronto	cloudy	1
									L. Angeles	fair	24	Nassau	sun	25	Vancouver	rain	12
									Las Palmas	sun	27	New York	sun	5	Venice	fair	13
									Lima	fair	21	Nice	fair	15	Vienna	drzzl	12
									Lisbon	rain	20	Nicosia	sun	22	Warsaw	shower	16
									London	fair	5	Oslo	sun	-1	Washington	fair	6
									Lux.bourg	shower	8	Paris	rain	7	Wellington	cloudy	13
									Lyon	rain	12	Perth	cloudy	27	Winnipeg	cloudy	-1
									Madeira	sun	24	Prague	rain	5	Zurich	rain	5

THE LEX COLUMN

Jet setters

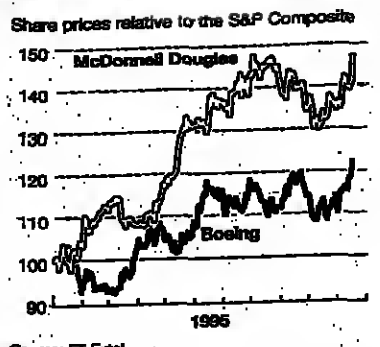
The combination of Boeing and McDonnell Douglas would create a $35bn behemoth, powerful enough to make customers and competitors quiver. For that reason alone, an outright merger of the two aerospace groups looks unlikely. Anti-trust authorities in the US are hardly going to allow Boeing to push world market share in civil aircraft to over 70 per cent by swallowing one of its only two rivals. Airlines will lobby hard for the same reason. Nor would it be easy to push through big job cuts ahead of next year's presidential election. Integrating the different cultures would also be tricky after half a century of *cut-throat competition.*

A less ambitious plan might work, though. The fit on the military side is compelling. McDonnell has a profitable defence business, based on existing aircraft such as the F-15 and F-18, with good export potential. By contrast, Boeing has strong positions on the next generation of planes, including the F-22 fighter and the tilt-wing Osprey. Combining the two defence arms would create a second industry giant to compete with recently-merged Lockheed Martin. McDonnell's civil aircraft unit could be spun off as a separate company.

Such an outcome would have little impact on Europe's Airbus consortium. It would be more worrying for defence contractors like British Aerospace. Perhaps this is just the sort of kick they need to break through the national barriers that have so far prevented rationalisation in Europe.

FT-SE Eurotrack 200:
1542.6 (+20.0)

US airlines



Source: FT Extel

World markets

Ignoring the perils of a US government debt default, investors are pushing US stock prices to new highs and driving down bond yields. Their assumption is that the dramatic face-off between the White House and Congress will have a happy ending. A deal is still probable, but it could well be a patch-up. Once investors see the *detail of an agreement which may* offer tax cuts without the necessary spending cuts, they may start to feel less sanguine. Expectations of a rate cut next month have created further downward pressure on bond yields. Falling yields are in turn supporting equity market valuations, despite the less than rosy prospects for earnings growth next year. Signs of fiscal laxity could prompt e rethink.

Weak fiscal policy is also e danger in the UK. Next year's inflation rate is expected to settle above the 2½ per cent mid-point of the government's target range. But this is widely viewed as a symptom of the target's irrelevance rather than as a serious concern, given the low level of economic growth. However, excessive tax-slashing would be dangerous for both stock and bond markets.

The world's economies are in a low-inflation, low growth phase. Bond investors may do better by *shifting* into markets where governments are tightening rather than loosening fiscal policy. Prime Minister Alain Juppé's plan to rescue the heavily indebted social security system may still face opposition, but even after today's rate-cut the good news is not fully in the market.

South Korea

South Korea's stock market has had an understandable bout of the jitters, following the news that a former president ran e $650m slush fund, and the naming of some of the country's biggest companies in the warrant for his arrest. In fact, the corruption scandal should offer a chance for the government to accelerate the process of *economic reform.*

Whether or not corruption charges are proved, the scandal has harmed the public image of the unwieldy conglomerates – or *chaebol* – which dominate the economy. The market is worried that the scandal will give the government an opportunity to take action against them. In the long run, though, this could be good news. The conglomerates have in the past been the main engine of the country's economic growth – but increasingly threaten to act as a brake on it. Their market power is strong and competition is limited; they lumber under some of the highest labour costs in the Asian mainland. Tougher application of anti-monopoly laws, which the government has threatened, would certainly help. Lower trade barriers would help even more.

The snag, though, is that the government could well be more reluctant now to push through changes which would benefit all businesses, including the conglomerates, such as freeing-up restrictions on foreign investment and allowing Korean businesses more freedom to invest overseas. Since capital is in short supply and costs at least 50 per cent more than elsewhere, such changes are urgently needed.

Cable and Wireless

Investors have two main concerns about Cable and Wireless: management and strategy. Yesterday's announcement by Lord Young that he will stand down as executive chairman in 15 months addresses neither worry. Now a power struggle has broken out between Lord Young and Mr James Ross, C&W's chief executive, it is unclear who will be running the group or where it will be heading in the period before a new chairman is chosen.

If this situation continues for the next 15 months, the prospects will be grim indeed for shareholders. A rudderless ship is bad enough; one where the captain and chief mate are continually fighting is particularly risky. Fortunately, it seems improbable that the power struggle can continue for another 15 months – although indications that the non-executive directors are themselves split over which man to back suggests that it may not be resolved especially quickly.

Investors are confused by C&W's continual round of talks with a different cast of possible joint venture partners. There is also scepticism over the group's much-vaunted "federation", which is supposed to knit together its operations around the globe. But from the outside, it is hard to decide whether Lord Young or Mr Ross bears the greatest responsibility for the group's drift or whether both are equally responsible. The task for the non-executive directors is now to bring the dispute to a successful and speedy conclusion. If they can, C&W's shares will be a strong buy.

Additional Lex comment on Legal & General, Page 22

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INDIA

Power of states is increasing

As the world's biggest democracy lumbers towards elections, the states are taking more power from New Delhi, reports Mark Nicholson

In five or six months the world's biggest democracy will stage what must count, in a land already replete with the spectacular and extraordinary, as one of its proudest and most impressive rituals: a general election.

It is a measure of the complexity of any Indian election that so many factors must be blended into the decision of when exactly to call the poll. The Chief Election Commissioner is considering dates, most likely in April and May, which must take into account harvests, religious festivals like the Hindu celebration of Holi and the Moslem fast of Ramadan, school examinations, the parching heat of May and June and the subseqnent onset of the monsoon rains.

The Commissioner advises, but the date will be set by Mr P V Narasimha Rao, the Congress prime minister; and his canny eye will be on the political climate. For this reason, and partly because Mr Rao has shown himself temperamentally immune from rushing into things, many observers expect him to select a date as late as possible next spring. He will be hoping that the outlook for the Congress party, which has ruled India for all but a handful of years since independence in 1948, will improve with time.

There are no scientific ways of gauging the mood of India's sophisticated electorate, 70 per cent of whom live in rural villages, but the signs over the past year have been of rising discontent with Congress, exemplified particularly by state election defeats in Gujarat, Maharashtra, Andra Pradesh and Karnataka. The main beneficiaries of Congress' poor performance have been the right-wing and Hindu nationalist Bharatiya Janata Party, which now governs a prosperous swathe of west and northern states embracing Maharashtra, Gujarat, Rajasthan and Delhi, and whose leaders this year began talking for tha first time of forming a majority government at the centre.

In recent months, though, the BJP has fallen prey to infighting in Gujarat and dissent in Maharashtra. In Uttar Pradesh, India's most populous state, it took part in an embarrassing experiment forming an abortive coalition with a low-caste party with the aim of shedding its image as an essentially high-caste outfit. This uncertainty in the BJP and tha failure of a "third force" of left and regional parties to coalesce behind a convincing national leader suggest that India's voters will return a hung parliament next spring.

A vital question, particularly from outside India, would be what such a result would suggest about the most striking achievement of Mr Rao's term – his government'a wide-ranging programme to reverse 40 years of economic *dirigisme* and autarky through macroeconomic reform and microeconomic deregulation. No finance minister since independence has been permitted to do more than Mr Manmohan Singh to open the Indian economy, unfetter its industrialists and thus place India in the race for a competitiva place among its faster-growing Asian neighbours.

One answer is that an indecisive electoral outcome would not represent a rejection of these reforms. Looking back over his four years, Mr Singh argues the single most important achievement of his tenure was to create a "broad national consensus" about economic reform and to "change the way Indians think about their economic problems". Independent analysts agree. Whether within the BJP – which claims Congress anyway stole its free-marketeer clothing – or even leftist parties, "there has been an implied consensus that the state should withdraw from investment and production," says Mr Dhirubhai Sheth, an academic with the Centre for the Study of Developing Countries.

Whichever party, or parties, assume power at the centre will, by this argument, willingly inherit a transformed India. At one level the change is one of improved economic performance. Economic growth, likely to skirt 6 per cent this year, is back where it was in the 1980s before the fiscal and external crisis which both forced and allowed Mr Rao in 1991 to take the drastic remedial measures of reform. Industrial output is humming at 13 per cent, exports rising at more than 25 per cent, inflation is holding at below 8.5 per cent and while imports are high, particularly of capital goods, these, says Mr Singh, are a necessary and healthy contributor to greater growth.

At another level, though, the change is structural. By removing industrial licensing and the overall "debureaucratisation of the economy" as Mr Singh puts it, Mr Rao's government has granted greater economic powers and freedom than ever to the states, which are increasingly the primary determinants of India's investment climate. States must now compete with each other for the foreign and domestic capital they desperately need both to produce growth and jobs and to meet chronic infrastructural shortfalls. And, as the recent rash of foreign sorties by state chief ministers attests, they are indeed competing.

Many observers feel the states will develop greater political power relative to the centre. "The balance of power in India has shifted dramatically in the last five years," says Mr Jairam Ramesh, a leading commentator and former senior bureaucrat. "The states are far more powerful entities now than they ever were, politically and economically. A very complex federal system is going to come into play in India."

Such aspects of the present government's reforms may indeed be irreversible. But while most parties appear broadly agreed on the thrust of reforms – and perhaps partly because of this – it is unclear how much the Congress-led reforms will be a central electoral issue next year. "Unlike western democracies, tha economic questions are not in the forefront of the electoral agenda in India – with the exception of inflation, which affects the poor," says Mr Jaswant Singh, a veteran BJP MP. "What they care about is the state of governance, broad things like does the government come across as caring, effective, efficient, uncorrupt."

Congress will doubtless plug its economic achievements as a core issue, though it has so far proved a poor popular advocate of its economic reforms. But partly for the reason Mr Singh suggests, Mr Rao'a party is likely to lay greater stress on its broader promise of offering "stability" and "security" in the country – of being the true custodian of India's constitutional secularism in the face of what it will portray as the religiously-based and thus "divisive" BJP. The BJP and other opposition parties will meanwhile make corruption and the "criminalisation of politics" a central theme, accusing Congress of protecting its own vested interests entrenched after so many years of rule.

Both the BJP and other opposition parties will also attack some aspects of the reforms, playing notably on the recently popular theme of "economic nationalism". As the Hindu nationalist coalition in Maharashtra demonstrated by attacking the $2.8bn Enron-led Dabhol power project, four-years of liberalisation has not banished deeply rooted nationalist feeling in the country.

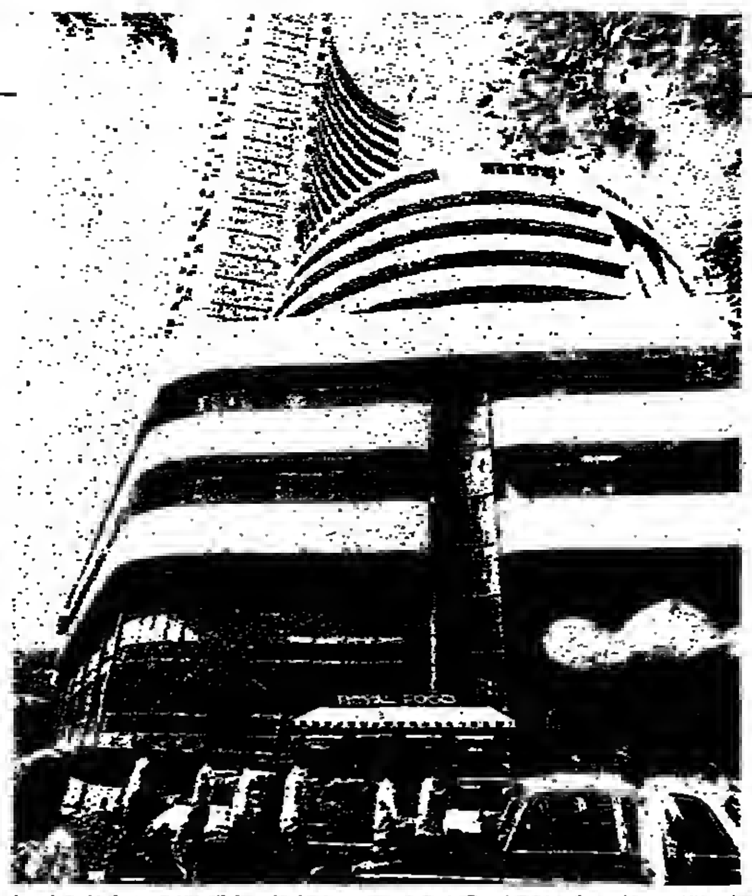
Moreover, while the economic benefits of reform for the country's poorest remain untested and uncertain, opposition parties will suggest the reforms have been anti-poor – offering the already privileged urban elite high-quality western style sports shoes, new model cars, mobile phones and Kentucky Fried Chicken, but without necessarily improving life for the millions of rural poor or urban slumdwellers.

One certainty, however, is that some of the country's most intractable problems are unlikely to feature significantly in the coming welter of campaign promises and accusations. On the economic front, the most vital of these is the country's fiscal position.

Mr Singh, the finance minister, admits that his achievement in cutting the fiscal deficit is "not as good as I had intended". Last year's fiscal deficit of 6.7 per cent of GDP overshot his target of 6 per cent and this year's goal of 5.5 per cent of national income is certain to be exceeded. More seriously, the International Monetary Fund, the World Bank and the Reserve Bank of India have all voiced considerable concern over India's inability either to make consistent cuts in the fiscal deficit or the slightest dent on the outstanding and consolidated public sector debt - now a full 87 per cent of GDP.

Mr Singh says retirement of this debt would be possible only through a broad programme of privatisation, something his government consid-

Continued on Page 5



Landmarks in two of India's principal power centres: Bombay stock exchange (above) and the Red Fort in Delhi (right)

IN THIS SURVEY

Editorial production: Maurice Samuelson

Politics: by Alexander Nicoll

Last lap to general elections

Next spring's polls will be a test of the growing strength of religion and caste as vote getters

Prime minister Rao: stopgap who became a durable and wily leader

Mid-term leadership changes in states, 1995

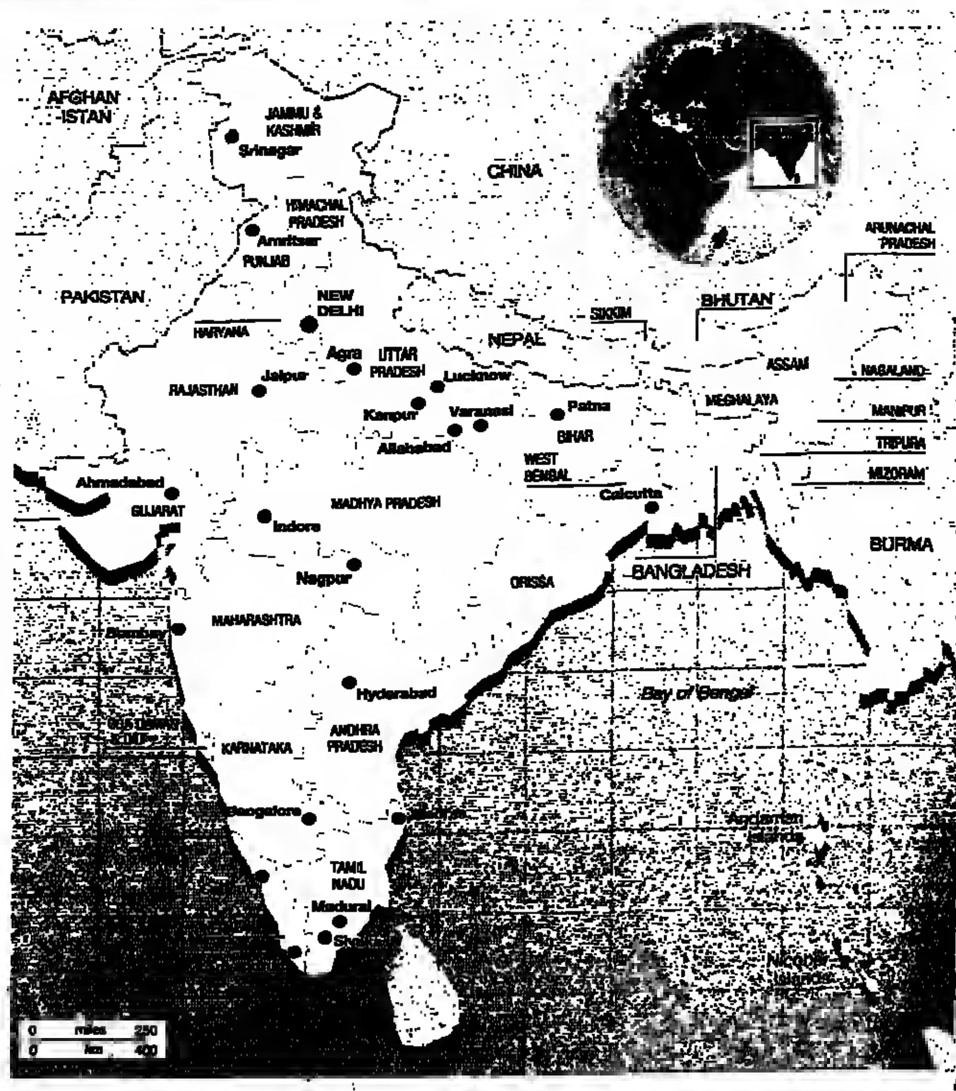
State	Chief minister (party)	Date	How lost office	Replaced by
Uttar Pradesh	Mayawati (BSP)	Oct	Alliance break-up	President's rule
Gujarat	Keshubhai Patel (BJP)	Oct	Party dispute	Suresh Mehta
Punjab	Beant Singh (Congress)	Sep	Killed by bomb	Harcharan Singh Brar
Andhra Pradesh	N.T.Rama Rao (TDP)	Sep	Party dispute	Chandrababu Naidu
Uttar Pradesh	Mulayam Singh Yadav(SP)	Jun	Alliance break-up	Mayawati
Kerala	K.Karunakaran(Congress)	March	Party dispute	A.K.Anthony

BSP: Bahujan Samaj Party. BJP: Bharatiya Janata Party. TDP: Telugu Desam Party. SP: Samajwadi Party

Strength of the parties in the Lok Sabha

PARTY	SEATS
Congress	271
Bharatiya Janata (BJP)	118
Janata Dal	39
Communist Party (Marxist)	36
Communist Party	14
Others	53
Vacant	13
TOTAL NUMBER OF SEATS	544

Parliament House, New Delhi: arena of power in the world's most populous democracy



When Mr P.V. Narasimha Rao, a veteran politician, was appointed Congress Party presideot and then prime minister after the assassinatinn of Mr Rajiv Gandhi in 1991, be was seen as a stopgap. Four-and-a-half years later, he has proved himself a wily leader, particularly adept at allnwing the frequent grass-fires of Indian politics tn die out withnut his intervention.

As a result, he approaches next year's electinns as the unchallenged leader of the Coogress Party. In spite nf repeated efforts hy loyalists nf the Nehru dynasty to undermine him.

This may mean that the party has takeo a significant step away from the dynasty. Mr Rajiv Gandhi became prime minister in 1984 fnllowing the assassinatinn nf his mother, Mrs indira Gandhi, the long-time prime minister who was herself the daughter of India's first prime minister, Mr Jawaharlal Nehru. Mrs Sonia Gandhi, the Italian-born widow of Mr Rajiv Gandhi, has refused all invitatinns tn hecome actively involved in politics, hut still remains an important figure in the party and clearly wishes to protect the interests of her two children.

Mr Narasimha Rao has overseen nther wreoching changes in the Congress party, which has ruled India for most of the period since independence in 1947. Prompted by a financial crisis in 1991, he has driven a far-reaching ecmomic liberalisation programme which runs counter tn the party's Nehruvian self-reliance doctrine. Some of the most stubhorn npponents of refnrm are within the party itself.

Separately, the party suffered a dramatic loss of support in state elections around the country, usually linked to general distaste for corruption and the adoption of populist approaches by regional opposition parties.

Among the major states, Congress still controls the state governments in Madhya Pradesh, Orissa, Punjah, Haryana, Kerala and Himachal Pradesh. But in the northern states nf Uttar Pradesh and Bihar, which return the most MPs to Delhi, Congress is very poorly placed – as it is in the south and west.

It has also come under increasing pressure because of corruption and alleged links between prominent politicians and criminals. And the party has suffered from internal bickering and defectinns as well as a hankering among some members, apparently now lessening, for a return to the Gandhis.

Only a few months ago, the pundits in Delhi were predicting that Congress would be wiped out in the general elections, which must be held hy July 1996 and seem likely to be in April. Those forecasts now appear to have been exaggerated, thnugh the nutcnme remains impossihle to predict.

The apparent revival in Congress' fnrtunes has cnme

> If neither of the main parties is able to form a coalition, a period of weak and unstable government will be in prospect

because of a series of upheavals in several states. In Andhra Pradesh, the ex-film star chief minister, Mr N.T. Rama Rao, was ousted in September hy the Telugu Desam Party, which he himself set up, and replaced with a snn-in-law. Many suspected the hidden hand of the prime minister, whn comes from Andhra Pradesh.

Mnre tellingly, the Bharatiya Janata Party, the leading opposition party in parliament, was hadly wnunded in October when an internal party dispute forced it to replace its chief minister in Gujarat. This aroused fears abont how the BJP, which had prided itself on its internal discipline and organisation, would handle itself if it were to come to power at the centre.

The BJP also came off worst in cnmplicated manoeuvrings in Uttar Pradesh, India's higgest state, where it is the largest party.

All this is husiness as usual in india, where politics is constantly shifting and parties and politicians seemingly in the ascendant suddenly have their pnwer cut away from tham. The contests are rarely about policies, but rather a constant jockeying and bartering for power.

Several key factors will play a big role in deciding voters' minds.

First, issues of religion and caste remain important. Congress was thought to have lost the votes of India's 100m Moslem community because Mr Narasimha Rao failed to prevent adherents of the BJP from destroying a mosque at Ayodhya, in Uttar Pradesh, in December 1992. The BJP had come to prominence through its Hindu nationalist campaign to huild a temple nn the site of the mosqne, which it claimed was the birthplace of the Hindu deity Ram.

However, the BJP has apparently lost impetus and direction since the destruction of the mosque, which sparked vinlence in which bundreds of people died. Moslems' disgust at the government's failure to stop the destruction may he tempered by fears that the BJP would, if elected, introduce a uniform civil code under which Moslem marriage customs would be targeted.

Issnes nf caste are also important, particularly in the large and poor states of Uttar Pradesb and Bihar, where the elites which were formerly in the ascendant have lost power and are being replaced by politicians who appeal to poorer castes by offering them representation. Uttar Pradesh recently had the first woman chief minister from the lnwest "untouchable" castes.

Caste and religious issues are important because in India, voter turnout is highest at the lower end of the social scale.

Secondly, Mr Narasimha Rao will earn a large feather in his cap if he manages to hold elections in the strife-torn state of Jammu and Kashmir as he plans in December. The prime minister has staked a great deal on the holding of elections designed to restore some normality to the state, where separatist militants have heen fighting a bitter campaign against a massive Indian security force. However, it remains to be seen whether the elections can be held and whether they help to reduce the violence.

Thirdly, the parties will battle each other less on the basis of election manifestos – which count for little in India – than on more straightforward promises of aid to the poorest. Mr Narasimha Rao has recently introduced a number of programmes of this kind, including a school lunch scheme and housing for 10,000 families, and others are expected. Since the government is hnlding huge stocks of foodgrains, offers nf rice at very cheap, subsidised prices, which have proved potent in state elections, are likely.

Other issues important to voters include corruption and inflation, though the latter is now running fairly stahle between 8 and 9 per cent. Economic reform, the central plank of Mr Narasimha Rao's achievement, is unlikely to be a significant bone of contention as most parties nnw appear to be welcoming foreign investment – though it is less clear that there is a true consensus on the need to liberalise the economy.

The higgest setback to reform – the cancellation of the power project of Enron of the US in Maharashtra hy the BJP/Shiv Sena government – has backfired on the state government in Bombay, which is now renegotiating the contract even as arbitration proceedings, which could cost Maharashtra several hundred million dnllars, are under way in London. This has taken the wind out of the "economic nationalism" platfnrm upon which the BJP was planning to campaign.

There is a strong possibility that no party will win a clear majority in parliament. The president would then invite the largest party to seek to form a coalition government. If neither Congress nnr the BJP were in a position to do this, various leftist and regional parties loosely grouped as the National Front – including the leftist Janata Dal – would hold office in coalitioo nr alliance, as they did before Mr Narasimha Rao's election. That could herald a period of instahility, although it is unclear whether it would cause any dramatic policy shifts.

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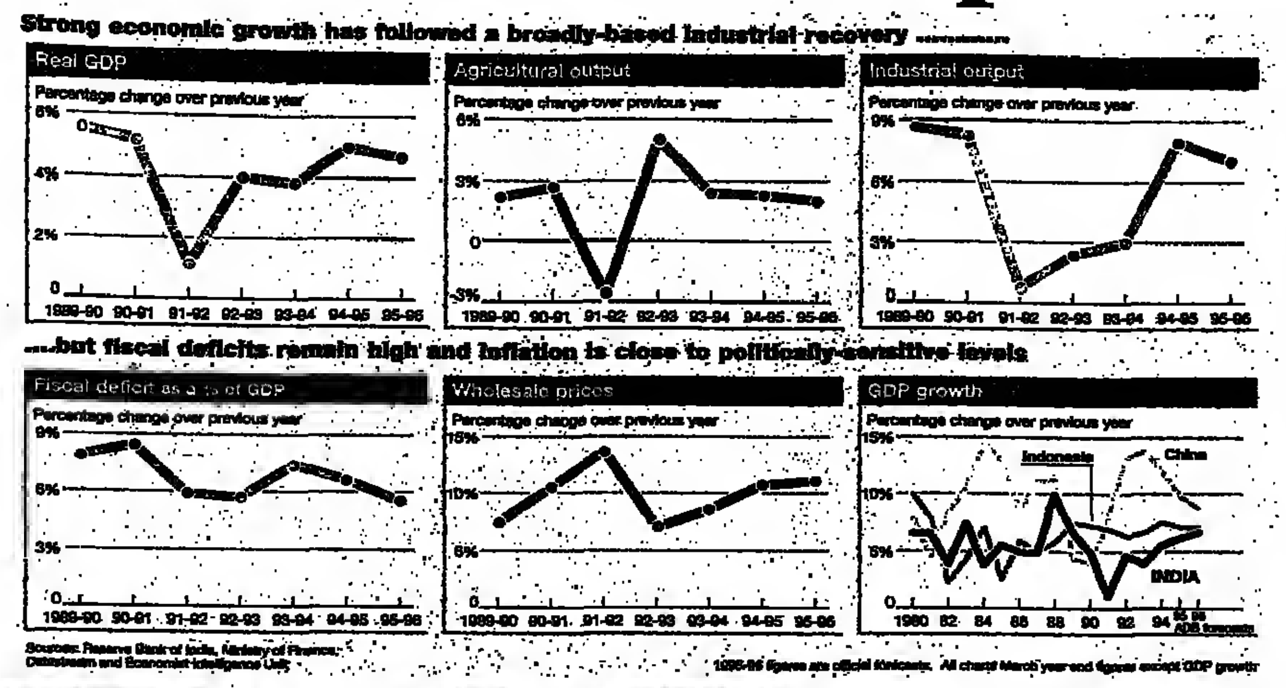
■ **Economic progress:** by Bronwen Maddox

The ascent becomes steeper

Reforms have been impressive, but the huge fiscal deficit makes the next stage harder



Tbe reform of the Indian economy since the 1991 balance of payments crisis is a remarkable achievement. Mr Manmohan Singh, the finance minister and chief architect of the policies, has earned plaudits at home and abroad for the scope and speed of the changes.

But in the past year, reforms have slowed. Privatisation is falling behind schedule; proposed infrastructure projects are stalling. The next steps of reform are politically trickier than ones already taken. Moreover, the forthcoming general election, expected in the first half of next year, may tempt ministers to spend more. The question now facing India is whether the present government, or its successor, can find the will to push through the next stage of reform.

In 1991, India was in the grip of a fiscal crisis and was close to defaulting on its external debt. Inflation was in donble digits, and GDP growth was just 1 per cent.

Since then, ministers have set about dismantling four decades of central economic control and integrating India into the world economy. Almost all sectors have been opened to private investment, domestic and foreign. Import restrictions and tariffs have been cut, while central government has relaxed control over industrial licensing. Financial markets have been liberalised, and bars against private banks lifted. The tax regime has been simplified and improved.

Investors, both Indian and foreign, have responded with enthusiasm, and the past two years have seen a surge of growth. GDP rose by 5.3 per cent in 1994-5, while inflation is down to 8.5 per cent. Growth has been increasingly broadly-based; in the industrial sector, manufacturing expanded by 9 per cent, and the capital goods sector, which had shrunk each year since 1991-2, grew by 22 per cent. The central government fiscal deficit has been cut from 8.4 per cent of GDP to 6.7 per cent in 1994-5.

Howaver, the problems yet to be tackled are formidable. In particular, the fiscal deficit is still a major obstacle to high growth, as the World Bank noted in its economic memorandum on India in May. Mr Singh acknowledges that progress in this respect is "not as good as I had intended".

Railway sleepers: weary workmen take a rest on the roof of a New Delhi station

Despite the improvement in the central government deficit, public savings (central and state revenues, minus current spending, plus gross profits of public enterprises) have been deteriorating and are now zero.

The public savings performance severely constrains the ability of the public sector to improve infrastructure, necessary for private investment. It also jeopardises the health and education programmes essential to India's long-term growth. According to a World Bank report published last month, diverting subsidies from state-owned enterprises would increase central government spending on education by 550 per cent, while diverting them to health care would allow spending to increase five-fold.

There is also a growing risk that financing the deficit will push up interest rates and choke off growth. In the past year, the government has taken steps to curb monetary growth, in particular, committing itself to phasing out the automatic monetisation of Treasury cash deficits, and to financing further borrowing by the issue of securities. Ministers have been acutely concerned about stoking inflation, a highly sensitive issne in India, given that most incomes are not indexed. However, interest rates on Treasury bills have now risen to about 14 per cent, while medium-sized businesses report that the cost of loans from banks is about 19 per cent.

To tackle the deficit, the government will have to confront controversial issues which it has avoided. Widening the revenue base is no simple task, given the narrowness of the personal income tax base. In 1992, India had only 4m personal income tax payers, or 0.5 per cent of the total population, compared with more than 30m owners of television sets.

Privatisation offers a way, in theory, of raising funds and of cutting spending on public sector enterprises. However, sales of large enterprises have been stalled by unwillingness to risk public sector redundancies and the opposition of the unions. Cutting spending, particularly agricultural subsidies, is hardly easier.

Despite these problems, the immediate outlook is better than many observers expected. The 1995-96 budget aimed to cut the fiscal deficit to 5.5 per cent of GDP, particularly by cutting spending on public sector enterprises. Data for the first quarter suggest that, so far, the government is broadly on course.

Tax revenues, which are higher than forecast because of the strength of growth, may be Rs20-30bn above the leval expected over the year. First quarter expenditure is also on target, although spending for the year may exceed the level budgeted by about Rs50bn, officials have suggested.

Those figures suggest that the deficit could fall by the end of the year to within Rs20bn or 0.2 per cent of GDP of the level budgeted, that is, to about 5.7 per cent of GDP, western commentators say. That estimate assumes that the government will raise Rs70bn from privatisation, and - crucially, but perhaps unrealistically - that it does not scatter funds profligately while on the election trail.

But even if the government manages to stick broadly to the the 1995-6 Budget, it - or its sncecssor - will need to impose even tougher goals thereafter. The World Bank estimates that the deficit needs to be reduced to 3-4 per cent of GDP to reach the government's inflation target of 5-6 per cent, and to increase growth to 6.5 per cent.

Whether that challenge is tackled will depend largely on the next election.

Whatever their outcome, the reforms of the past four years have taken such a deep hold that it is improbable that they could be erased. But the transformation is far from complete.

□ Interview: Page 13

■ **Offshore dedicated funds:** by Khozem Merchant

Door remains ajar

Investment funds have proliferated rapidly since 1992. But their success so far is mixed

There are some 47 offshore dedicated funds knocking on India's door. With an aggregate $11bn to invest in its corporate sector, mainly via the Bombay stock exchange, the funds are a measure of the country's pulling power as an investment destination.

The funds - all launched since prime minister PV Narasima Rao began to liberalise the economy in 1992 - allow investors to gain exposure in India without going through the time-consuming settlement and custodial process, widely regarded as one of the country's biggest impediments to an efficient financial market.

Yet their performance over the 12 months to September, with the Bombay bourse, the country'a largest, veering downwards and sideways, has been humpy and unsettling. "It's been a very bad time for funds," says Jonathan Boyer director at Jardine Fleming Investment Management, which runs four India funds.

In the 12 months to September, only two (Peregrine'a and Morgan Stanley/SBI Capital's India Magnum Fund) out of the 14 closed-end funds which invest in india or the broader subcontinent outperformed the market, according to Micropal, which tracks performance.

The $25m Peregrine India Smaller Companies Fund, one of the newest and smallest funds, topped the pack: its underlying net asset value was down by 22.67 per cent in US dollar terms (gross income reinvested). Over the same period the investment fund sector in India as a whole declined by an average of 33.39 per cent; the IFC Investible India index dropped by 30.5 per cent; and the BSE-30 index fell by 24.4 per cent.

"Compared with other emerging markets, india was fashionable last year but not now. There seems to be some investor exhaustion. Only six funds have been launched this year compared with 27 in 1994, says Micropal's emerging markets specialist David Masters. "And there is simply not much sign of growth."

Most fund stalwarts have been stymied. in the year to September, the net asset valne (NAV) of New York-listed Morgan Stanley India Investment Fund slumped 31.28 per cent; Jardine Fleming's India Fund was down by 37.09 per cent; India Opportunities Fund, managed by Edinburgh-based Martin Currie, down 35.99 per cent; and the New York-listed India Growth Fund, the oldest, operated hy Unit Trust of india, india's biggest Mutual Fund, was lower by 38.93 per cent. The performance is typical across the board.

The reasons are broadly threefold:

● political uncertainty ahead of tbe general election next spring.

● market and industry concern over both tight monetary policy, which has kept interest rates high, and the fiscal deficit, now just under 7 per cent of gross domestic product.

● this growing indebtedness is reflected in turn in increasing government bond issuance.

Collectively, these factors are aqueezing liquidity and depressing the market. From its peak in September 1994 of 2,176.48, the Bombay National Index (of 100 top companies) has tumbled by 27 per cent. in addition, the rupee bad depreciated against the US dollar by 10.6 per cent since early August, further damaging the funds' NAVs. (All the funds are denominated in US dollars).

> Medium sized companies have good prospects and are cheaper

"Large institutions are, in effect, being forced to buy government bonds rather than equities and, along with the prohibition of *badla*, the highly-speculative forward trading mecbanism favoured by brokers which has redneed liquidity by an estimated 20 per cent, the impact has been to drive liquidity out of the market, and generally depress it," said one fund manager.

One consequence of tbese difficulties is that many closed-end funds are trading at substantial discounts to their NAV.

Of 14 funds monitored regularly by Jardine Fleming, eight traded at a discount in the 12 months to July.

Open-ended funds avoid the problem of a discount, since units trade at around asset value and can be redeemed by the manager. But, as a consequence, performance may suffer since investors are most likely to sell when the market is falling, forcing the manager to liquidate boldings in a declining market.

The manager of a closed-end fund, in contrast, can sit tight during a crash since the shareholder can only redeem his boldings by selling to another investor.

"The funds' selling point [to investors] haa to be performance," says Vinod Sethi of Morgan Stanley Asset Management. The firm's Indian Investment Fund, with a market capitalisation of $400m and its Magnum Fund, capitalised at about $450m and, launched in 1989, the oldest of the India band of funds, form the core of the firm's estimated $2hn of funds aimed at India.

Typically, funds spread their investments evenly between blue-chip A share companies (to ensure liquidity, especially in open-ended funds as investors move in and out), and small- to-medium-sized companies with a capitalisation of between $50m and $200m, the so-called B shares.

It is the latter - historically outside the protective wing of the licence aystem and now better placed to respond competltively as the economy opens up - whicb have recently been gaining favour with fund managers.

"Typically it was A shares that bave had tbe highest price/earnings premium and this premium had risen too high: they were just too expensive," says Laurel Grasin-Drake, dlrector of tbe BZW Investment Management and portfolio manager for the $350m India Fund.

"Medium-sized companles' growth prospects and valuations are better and with their lower p/e ratios, they are cbeaper to buy," says Ayaz Ebrahim, associate director of Indosuez Asset Management and manager of its $275m Himalayan Fund, one of the longest-running funds.

An exception has been Jardine Fleming, which manages the Jardine Fleming India Trust, listed in Hong Kong with a market capitalisation of $220m and the New York-listed Jardine Fleming india Fund, capitalised at $120m.

"Last year we shifted to bigger stock and our funds have a 70:30 aplit in favour of premium stock, giving us a more liquid position," says Jardine's Mr Boyer. "Medium and small stock performed well in 1993 and 1994 but we think there will be increasing polarisation between the big, transparent companies and the illiquid, poorly-managed small and medium companies."

■ **Mechanics of share-dealing:** by Richard Lapper

Slow end to the quill pen era

Electronic systems are needed to cut the present 28-day share settlement period drastically

A planned reform of India's chaotic share settlement and custody process could radically increase the amount of foreign capital flowing into the country. Next year the indirectly government-owned Stock Holding Corporation of India (SHCI), plans to launch the country's first ever share depositary, following on from legislation which was expected to come into effect by the end of the year.

The scheme - one of a number being planned in India - will allow participating investors and traders to settle and register all share deals through electronic book-entry methods. Its backers argue that the new system will increase efficiency, cut costs and reduce the risks of trading in India's $135bn equity market. Bankers claim that if it is successful the new depositary will dismantle the single biggest drag on foreign investment.

India's existing system of share settlement is slow and cumbersome mainly because of its paper-based technology. Share trades are typically settled within 28 days - compared with five days or less in most advanced markets. In addition the transfer of shares from one owner to another is labour intensive and time consuming. These problems are magnified by the sheer scale and fragmentation of the country and its stock markets.

More than 6,000 companies have stock market listings - a larger figure than in any market apart from the US - on 23 stock markets. But many of the companies are tiny, closely controlled family businesses. Settlement is complicated by poor infrastructure and communications.

The independent businesses which broke and register shares are both small and thinly capitalised. Company promoters can block share transfers on legal grounds. At the same time registrars reject deals for a variety of technical reasons, such as the fact that signatures do not match precisely.

The result is extra expense and risk for investors. As many as 10 per cent of share transaction are delayed by more than six months. Mr James Hogan, who manages the share custody operations of HSBC in Bombay, cites a case in which a share certificate has not been registered two years after the original deal.

In extreme cases, shares can be damaged or even completely lost. More importantly, settlement risk - the risk of default by a counterparty to a share transaction - is much higher in the Indian market. And investors pay more heavily for Indian custody services than they would elsewhere. Typically an investor would pay between $500 and $600 on a $250,000 transaction, as well as 0.5 per cent of the value of the deal each year for custody services.

By comparison in other markets investors would rarely pay more than $100, while the

> Ten per cent of transactions are delayed by more than six months

additional annual cost usually amounts to between three and five basis points. The system also contributes to the costs of raising capital for Indian companies.

Typically Indian companies pay up to 10 per cent in fees and commissions when launching new issues, compared with 4 to 4.5 per cent when they issue depositary receipts (paper which reflects the underlying value of shares) on international markets.

Hopes are high in some quarters that the new depositary will increase the attractions of the Indian market for both domestic and international investors. By the beginning of November the Securities and Exchange Board of India (SEBI), was expected to have completed its legislative proposals, clearing the way for what it expected to be the formality of approval by the Indian parliament.

Bombay stock exchange: patience is a virtue

In turn, the SCHI, which has been working on its plans since 1988, expects its depositary to be up and running by the beginning of next year, while a number of other plans are at different stages of development.

Mr R Chandrasekaran, managing director of the SCHI, expects to be handling 20 per cent of all deals by early next year. He has spoken with some 70 of India's top 100 companies and is confident that these will opt to pass their share certificates over to SCHI's depositary.

"We have found these companies quite receptive to the idea," he says. "It will also increase the visibility of share trades and allow them to monitor their share registers more effectively," he explains.

A number of local bankers and stockbrokers share Mr Chandrasekaran's enthusiasm. "The legislation will have a major impact," says one Bombay-based Indian broker. "The largest beneficiary will be the institutional investor, especially overseas pension funds who cannot currently invest because of settlement problems. I am sure a lot of money from the US will come to India."

Although companies will still have the option to remain outside the depositary system, the broker says that "this will be 'Hobson's choice'. The government will surely put its weight behind the top 100 companies in the depositary."

Not everyone, however, is so sanguine. Three criticisms are frequently raised by foreign bankers and brokers. They argue that the government should compel investors and issuers to use the new depositary. According to draft proposals investors and possibly companies will be free to opt out of the electronic system. This might permit the survival of paper based settlement, possibly complicating the current system.

The government's plan to allow a number of depositaries - rather than one single institution - is also seen as a mistake by some foreign brokers. Instead, argue the critics, the authorities should set up and directly guarantee one single depositary, in line, for example, with developments in Thailand and some other Asian countries. The absence of a clear guarantee from the central government could inhibit the use of the depositary by US pension funds, they argue.

Finally the absence of an automatic bank payments clearing system is likely to inhibit the effectiveness of the new depositary.

Nonetheless, even the most pessimistic believe that an electronic settlement system will eventually be installed, even if the reform takes between three and five years to achieve.

Mr Pradip Kar, executive director of SEBI, is confident that the reforms will take hold much more quickly, arguing that market forces will force companies to use the depositaries. He predicts that a "substantial amount" of share trades will be scripless by the end of next year.

ANALYSIS Capital markets

Glow of approval

Lending to Indian borrowers is becoming steadily more acceptable in world markets

Competition in the international debt market has produced some excellent opportunities for Indian borrowers. Many corporates - back in the debt markets for the first time since the country's balance of payments crisis in 1991 - have rushed to take advantage of deals which, in some cases, will more than halve their financing costs, Richard Lapper writes.

Not every Indian company looking for cheaper credits will benefit, though. Anxious to avoid a build-up of short term indebtedness in the wake of the Mexican crisis earlier this year, the Indian government has rationed access to the markets. Worse still there are some signs that market conditions may be getting much tougher.

Although Indian companies have been active in the equity markets - raising more than $3bn in issues of global depositary receipts during 1994 - they have been slower to regain access to the loan and bond markets as a result of the debt crisis in 1991.

The decision by Moody's, the international credit rating agency, to award India an investment grade last autumn, cleared the way for the country's rehabilitation in this respect. Even though India is still rated sub-investment grade by Standard & Poor's, Moody's main rival, the decision opened possible investment in the country to a raft of US investors.

More important, Moody's assessment of the improvment in India's macro-economic management under the government of Mr P V Narasimha Rao provided further evidence for international banks on the look out for lending opportunities.

International banks have repaired their balance sheets since the recession and, flush with cash, have been competing fiercely for syndicated loan business.

As a result borrowing rates have tumbled with spreads over the London-Interbank Offered Rate (Libor) falling by an average of more than 50 per cent since the beginning of last year.

Terms have also been relaxed with bank covenants being eased and an extension of loans. When Indian borrowers began to tap the market they found they could access seven-year funds at rates of as little as 75 basis points over Libor, compared with local lending rates of between 16 per cent and 17 per cent.

Not surprisingly Indian borrowers have been heavily active. In the fiscal year to April 1995 they borrowed a total of $3.5bn, following up with a further $3bn of issuance in the first six months of the current fiscal year.

Borrowers face a number of

> Applications for foreign finance are now coming at the rate of $1bn a month

difficulties, however. First, tough government restrictions on borrowing are severely restricting access to the international market. Caution about increasing the size of India's $94.8bn external debt was reinforced last year by developments in Mexico, where acute levels of short term indebtedness led the country to the brink of default and increased dependency on external creditors.

Although only $23.5bn of India's debt is owed to banks (more than half was contracted on concessional terms), the government must mobilise some $40bn in external finance in order to allow it to roll over obligations falling between 1995 and 1998.

The finance ministry is also concerned about the potential inflationary implications of heavy foreign borrowing. Last year it announced an overall limit on borrowing - initially opting to impose a ceiling of $3.5bn for the current year. Additionally, it limited companies to one issue per year and gave priority to borrowers seeking funds to invest in priority infrastructure projects, such as power, roads and telecommunications. As part of efforts to extend the maturity of the country's debt, the authorities also refused to approve any loan or bond with a maturity of less than seven years.

In the last few months, the demand for foreign finance has risen with applications for $1bn a month reaching the finance ministry in recent weeks.

As a result the initial restrictions have been modified. In May, for example, the government announced that companies seeking to refinance existing obligations at lower prevailing rates would be allowed to conclude deals with a maturity of less than seven years.

Finally, the $3.5bn limit on overall lending has been raised, at least informally, to $5bn. And with total applications to the end of September reaching some $10.5bn, the ceiling could be lifted again, especially if export grwth continues at its current rate.

Already, however, the restrictions on supply have caused some hectic bidding among merchant banks anxious to win a chunk of Indian business, with this extra element of competition helping to depress spreads to possibly unsustainably low levels. Indian officials say they are surprised that Indian borrowers were able to obtain spreads of a mere 75 basis points over Libor. Only five years ago Indian borrowers were paying 500 basis points for international loans.

These pressures have been most evident in the floating rate note market, which by the end of October had seen three Indian issues. Spreads on two recent FRN deals have widened by more than 20 basis points in the secondary market.

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■ **Market research:** by Lisa Vaughan

Moneyed class is hard to count

Marketing experts are in the dark about the real size of India's wealthier consumer classes

Multinational companies seeking fresh markets are looking at India's economic liberalisation with dollar signs in their eyes.

With a population of nearly 900m and a growing middle class roughly the size of the US, India is clearly a market with huge potential. But is it a dream or a nightmare?

The pace of foreign companies setting up offices here is accelerating as more and more multinationals launch joint ventures with local manufacturers. But trying to identify India's burgeoning middle classes and then successfully marketing western goods to them is proving to be a difficult task.

India's potential army of spenders is said to number anything from 200m to 400m people. Yet anecdotal evidence from experienced firms, population profiles and a recent spending study suggest that only a fraction of this number of people may be able to afford the western consumer goods flooding in.

Bharat Patel, chairman and managing director of Procter & Gamble India, says: "People who think India is a gravy train are wrong. It is a very, very tough market in some ways. People don't have much money to spend and 40 per cent of the price the consumer pays goes to taxes."

The term "middle class" in India means something different from middle class in developed industrialised economies. A middle income Indian household earns from Rs20,000 to Rs86,000 a year (£400-£1,700) as defined by the National Council for Applied Economic Research (NCAER). The cost of living is lower in India than in developed countries, so the rupee takes consumers much further than its dollar or sterling equivalent would in the US or UK. Nevertheless, most westerners would consider £1,700 a year a very low standard of living.

Statistics on Indian incomes are scarce, because only a few million people ever pay taxes and incomes are under-reported in the thriving and widespread black market economy. But an NCAER annual consumption survey estimates India's middle income population at 288m people or 57.6m households of 5.5 persons each.

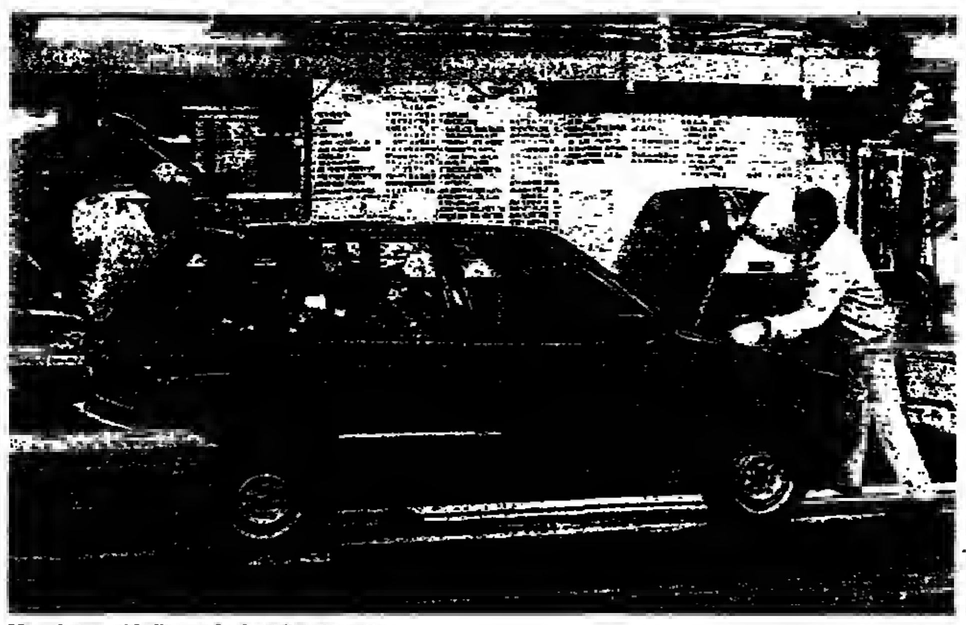
The spending power of this middle income population is low relative to its western developed counterparts, the NCAER survey shows. Many middle income families do not have basic items such as telephones. Cars are a luxury owned only by the elite. Middle income families typically have bicycles, mopeds or scooters. Only one in three families in the upper-middle-income bracket (Rs62,001 to Rs86,000) owned a refrigerator, the NCAER survey showed, and that is in a country where temperatures sizzle above 32 deg C for four months a year.

The serious consumers in India, then, are the upper classes – those with incomes above Rs86,000. In a new study just published, NCAER's chief economist, I Natarajan, has attempted to count the number of India's very rich. By projecting the NCAER consumer durables survey results and adjusting for black market and unreported income, he estimates that about 18m households fall into this category, or just under 100m people.

> Most Indians buy household goods in the smallest sizes

"This group is the premium market," says Mr Natarajan. "They will be fully equipped with consumer goods and will buy anything." Four years on, the government's economic reforms are benefiting this socio-economic group most. They are the people who will snap up the luxury cars, the cellular phones, music systems, expensive watches and western-style clothing the minute they are available.

At the top of the heap, about 74,000 households earn more than Rs5m a year, the study shows. About 238,000 families have an income above Rs2m; about 577,000 households earn more than Rs1m and about 1.4m families bring in over Rs500,000 a year. About 3.4m households earn more than Rs250,000, which leaves about 14.8m households earning between Rs86,000 and Rs250,000.



Maruti assembly line: only the elite own cars

Yet demand for western products among all income groups is soaring, especially among the young. The advent of satellite television in India means that even in the smallest rural villages Indians are exposed to western programmes, lifestyles, clothing and accessories. "Satellite TV has created needs where none existed before," says Mr Nehal Medh, general manager of the Market and Research Group (MARG), India's biggest market research firm.

Multinationals doing business in India must adopt special strategies tailored to the tastes, habits and budgets of the unique Indian market, and almost all enlist the help of market research organisations. Bombay-based MARG, for instance, samples households of a minimum annual income, then further narrows down its sample group based on use of the product in question. It advises clients on whether the market is ready for the product and on distribution, pricing packaging and advertising. MARG and its competitors also define a "target population" for the manufacturer, a maximum number of people who may buy the product over a period of time.

Many factors besides income limit the size of the potential market for new consumer products. The rural-urban divide is critical. Only 25 per cent of India's population – 225m or 41m households – live in cities.

Mr Medh says most of the companies MARG works for aim at the urban areas because the huge rural populace is too difficult to penetrate and distribution is "diabolical". About half the rural population, or 350m, buy no brand name goods at all.

Pepsico is one company which has found nationwide distribution a big headache. Since selling soft drinks in 45 deg C heat depends upon the drinks being cold, Pepsi spent millions last year on installing its coolers and soda fountains around the country. But Mr Deepak Jolly, Pepsico spokesman in New Delhi, says rural India, a huge and tempting market, is still practically a soft-drink free zone. With a Pepsi costing Rs6, the company would like to reach the whole of India's middle class one day. But competition is fierce with the established Indian soft drink franchises, while Pepsi's target market is close to 100m consumers.

Foreign companies must also modify products which are successful in developed countries to suit Indian lifestyles. Kellogg's, which launched its breakfast cereals a year ago is finding Indian breakfast habits particularly entrenched. Mr Advait Baxi, regional sales manager, says Kellogg's target population for its Corn Flakes, Wheat Flakes and Basmati (rice) Flakes is 85m. But so far the company has penetrated only 3 per cent, mainly because sales depend upon changing people's eating habits.

Most Indians do not eat a cold breakfast, do not care for convenience and, with a poor knowledge of nutrition, they want meals to be filling. The competing Indian breakfast cereals are also cheaper – Rs15 versus Rs37 or Rs45 for Kellogg's – and many people do not think the quality gap is worth the additional cost.

Procter & Gamble, which has been in India since 1986, is aiming both at the premium market and the mass market. It has found success catering to both sectors by offering branded products such as Ariel soap powder in different sizes, formulas and prices. Mr Patel of P&G estimates the premium market is 20 per cent, or 110m people, of the potential 550m market for branded goods.

Aiming at the premium market, P&G launched Pampers disposable nappies in India this year. But selling at Rs18 per nappy, Mr Patel estimates that sales are likely to be limited to about 75,000 households only.

"This will be a novelty item here for the foreseeable future," he says. True to cultural tradition, even wealthy Indians who try disposables will only put them on their babies for going out. For this reason, and to make the nappies more affordable, the company sells Pampers in packs of four and 10 (compared with the economy size of 72 sold in developed countries).

Toiletries such as aftershave and shampoo are also used as occasional-use only items by many who can afford them, except for the most wealthy or westernised Indians. Most Indians buy household goods in the smallest sizes available because of cost and shelf life in the tropical climate. Revlon has joined up with Modi to sell cosmetics but marketing men put their target market at only about 11m, the number of urban women in the right income group.

Increasingly, multinationals here are focusing only on the top layer of the premium market (against the advice of the voices of experience) and believe that India will be very lucrative in the long-term.

Until 1990, India had been totally protected from competition – a sellers' market. "Now that the market has opened up and multinationals have come in, we expect things to change," says NCAER.

KEY FACTS

Area	3,287,263 sq km
Population	920 million
Head of state	President Dr Shankar Dayal Sharma
Currency	Rupee
Average exchange rate	1994/95 $1=31.4 Rs

ECONOMY	1994/95	1995/96
GDP (Rs bn) [1]	9,109.7	10,478.9
Annual % change in [2]		
Real GDP	5.0	4.7
Private Consumption	3.7	4.0
Total Investment	7.5	5.2
Government Consumption	4.5	9.5
Exports of goods & services	13.2	13.0
Imports of goods & services	17.2	13.0
Annual % change in output of [3]		
Agriculture	2.2	2.0
Industry	8.0	7.0
Services	5.6	5.7
As a % of GDP [4]		
Total external debt	32.5	30.6
Debt service ratio	24.1	24.7
Reserves ($bn)	21.2	23.2
Central Govt Finances [5]		
Fiscal deficit	6.7	5.5
Revenue	10.4	10.3
Expenditure	17.1	15.6
Trade (US$ bn) [4]		
Current account balance	-0.7	-2.3
Exports (fob)	26.6	30.6
Imports (cif)	-29.5	-34.6
Trade balance	-2.7	-4.0
Main trading partners (%) [6]	Exports	Imports
USA	18.0	11.7
Japan	7.6	6.8
Germany	6.9	7.7
UK	6.2	6.6
OPEC	10.7	22.4
EU	26.0	30.0

Fiscal years April-March. (1) Official budget estimates
(2) At market prices. EIU forecasts for 1995/96
(3) At factor cost. EIU forecasts for 1995/96
(4) World Bank estimates & projections
(5) As % of GDP, MoF official budget estimates
(6) Percentage share of trade in 1993/94
Source: EIU, World Bank, Indian Ministry of Finance.

Centre of power is shifting

Continued from Page 1

ered politically untenable. The BJP claims it will address privatisation more vigorously than Congress, should it form the next government. But it is unclear whether any party currently possesses the will to attack India's economic predicament.

Some believe only a crisis such as that of 1991, one the RBI asserts to be in the offing if nothing is done to attack the deficit, will bring that political will. "Things will have to get worse before they get better – we'll have to reach a situation where the cost of not doing anything is greater than the cost of taking some very serious action," says the chief economist of a leading US merchant bank.

There are more deeply-rooted problems still. One, highlighted in a book by two eminent economists, Jean Dreze and Amartya Sen *(reviewed on Page 13)*, is the poor state of basic education in India, where literacy rates average just 50 per cent.

In outlining systemic deficiencies in India's primary schooling, and a failure of political will to address these, the authors point out that India's level of basic education today is far behind those attained more than 30 years ago by today's Asian "tigers".

They conclude that India has not provided enough citizens with the "capacity to read, write, communicate and interact in a way that is quite essential for modern industrial production" for the country to enjoy the kind of broad, "participatory" and poverty-alleviating growth enjoyed by its more successful Asian neighbours.

This is a gloomy prognosis. But there is little Indians enjoy more than confounding expectations – particularly external ones. With that in mind, and remembering that Mr Rao was perceived as "stopgap" prime minister when he took power in 1991 – with Congress itself forming only a minority government until benefiting from later defections later – perhaps the safest advice for observers of India's forthcoming elections and their aftermath is to await the customary surprises.

■ **Telecommunications:** by Bronwen Maddox

Obstacles to a gold rush

The birth of a vast cellular telephone market is delayed by government procrastination

India's 920m people have between them only 9m telephones. Those who do have one often find that it takes many attempts to place a call to another city, and that the call is then cut off every few minutes. To would-be telecoms investors, such as Mr Richard McCormick, chairman of US West, these shortcomings give Indian telecoms "the biggest market potential in the world".

But at present, that potential is tantalisingly out of reach. In telecoms, as in virtually every other arena of reform, ministers have been wrestling to find ways to liberalise and privatise which are attractive to investors and yet are politically acceptable. It seemed, with the auctions for new licences this summer, that they had succeeded. However, investors now fear that the initiative is stalling.

At present, the state has a monopoly in basic telecommunications, while licences to start cellular telephony have been granted for the four largest cities. In the summer, the government held tenders for 20 further licences or "circles", corresponding roughly to state boundaries, in both basic and cellular telephony.

In basic telephony, the government plans to have a duopoly of the government provider – the Department of Telecommunications – and a private competitor. In cellular, it said it would take the two highest bids, so that each region had two competitors. The government also insisted that bidders have foreign participation, of up to 49 per cent.

Foreign investors, in particular, point out that there are considerable risks attached to the licences. According to the cabinet, an independent regulator will be created to regulate tariffs, choice of technology and terms of access to the DoT network. However, the body will remain under the DoT's control, and its inclinations and the extent of its aothority are unclear.

Analysts of the tender documents also worry that there is little guarantee that the duopoly in basic telephony will be respected. A third risk is that the DoT retains a monopoly over long-distance services, and newcomers must rely on it to upgrade its network.

Despite these uncertainties, bidders flocked to the tenders. The results were announced in August. However, the government has made no move since then to award the licences. Instead, there have been informal suggestions that a cap may be imposed on the number of licences which any group may hold. Bidders, particularly foreign telecoms companies, have complained bitterly that this amounts to changing the rules after the auction.

Alcatel switch system in India: waiting for the right call

In the absence of official comment, observers have concluded that ministers are afraid of granting too great a number of licences to any one group. In cellular, if no cap is imposed, the consortium of US West, the US telecoms company, and BPL, an Indian telecoms manufacturer, would hold one of the two licences in five circles. However, bidders say that there may be less concern about monopolistic elements in cellular than there is in basic, as there will be two new operators in each cellular circle.

It is the basic telephony tenders which have caused more concern, indeed, incredulity. A consortium led by Himachal Futuristic, a medium-sized Indian telecoms manufacturer, has bid a total of $27bn and stands to gain nine circles if no cap is imposed. Its bid for Kerala was more than seven times as much as the next highest. Its bid for the Delhi licence was a third higher than the next highest, from a consortium including American Telephone and Telegraph. Mr Virat Bhatya of AT&T says "from our point of view, Himachal's figures are high".

Rival bidders are divided in the action which they want the government to take. Some want a cap; however, one US investor said "Himachal's bluff should be called – there is no way it could raise that money".

At the same time, it is far from clear how the process of setting caps would work. It could pose the government with a host of tricky new questions. How would it decide which circles a winner of many licences should hold?

In cellular, would a bidder be allowed to choose to operate in a region in which it had made the second highest bid, in preference to a less lucrative region where it had made the highest offer?

Can ministers ask third-placed bidders to match a top-placed bid which has been disqualified?

Bidders have not entirely given up expectations of an early resolution. According to Mr Bhatya, "these licences could give India $8m per day [in fees] – that is not a small figure for any country". However, bidders say that the longer these questions are unanswered, the more likely the whole troublesome issue will be shelved until after the election.

CASE STUDY Himachal Futuristic

Ambitious bidder on the line

"I've never said I'm India's Bill Gates, but still my company does have the makings of a new Microsoft," says Mr Mahendra Nahata, joint vice-chairman of Himachal Futuristic. He insists that his company's bids for basic telephone services are financially sound and that critics are wrong to focus on the headline $27bn total of its winning bids, Paul Taylor writes.

Even if Himachal were awarded all nine circles, he would not have to raise that amount – most would be paid by cashflow of the new businesses. He estimates that the consortium needs initially to raise only about $4bn, a quarter in upfront licence fees, and the rest in capital expenditure. Those projections partly reflect his claim that Himachal would have lower capital costs than many others.

Rival foreign bidders say this is "plausible", given that Himachal and its associated companies have seen annual revenue grow from zero in the mid-1980s to about $70m on the back of aggressive bidding for government contracts.

However, critics raise more questions about Himachal's revenue projections.

Mr Nahata says that Himachal has assumed that tariffs will be static or falling in real terms over the period of the licence; instead, growth will come from new lines.

He predicts that India could add 6m lines a year if the new licences are awarded, three times the DoT's present rate of increase.

That calculation is based partly on the example of China, which last year added some 12m new connections, and is expected to surpass this tally in each of the next few years. Hs also believes that people would make more calls if the service were improved and new features, such as voicemail, added.

Rival bidders believe those forecasts could be achieved – in the medium term. However, the example of China may be deceptive, they argue, given that China has spent years investing to reach its present growth rate.

■ **Satellite and cable television:** by Shiraz Sidhva

The future is beaming

The industry could treble in value over three years as local operators give way to corporate giants

As satellites proliferate ovar Asian skies, India is at the heart of a television revolution. A country that took 50 years to provide 8m telephone lines to its 850m people has, in the past four years, spawned more than 16m cable households.

The cable industry, with an estimeted 80m viawers, attracted advertising revenoe of Rs1.15bn in 1993, up from a mere Rs150m the previous year. A recent study suggests that it will have expanded to 40m cable households by the turn of the century. The Indian government estimates that ths cable industry, currently worth Rs3bn, will grow to Rs10bn in the next three years.

The launching of PanamSat-4 (Pas-4), the US satellite, in August compensated for the destruction of Apatar-2, another US satellite. Indian viewers can now choose from more than 40 channels including MTV, the US music channel; Asia Business News (yet to go on the air); ESPN, the sports channel; Turner Broadcasting and Sony Entertainment Television, all through the newest "hot bird" in the skies.

"Indian viewers have never had it so good, and nor have the advertisers," says Ms Mita Aggarwal, a media planner. But she adds that there is a lot of surfing (flicking between channels) in the process. "Advertisers and broadcasters are looking for viewers, not surfers."

As more international channels become available on Indian television screens, foreign and Indian broadcasters have begun to target specific audiences. Star TV, the Hong Kong-based satellite network which kicked off the Indian cable revolution in 1991, was the first to realise that Indians did not like watching serials in Mandarin, and that the Chinese reacted equally negatively to South Indian Malayalam songs.

Foreign broadcasters targeting India's potential viewership of 500m-plus have realised that there is no such thing as a pan-Asian market. When ESPN, the sports network, launched a 24-hour India channel last month via Pas-4, it took care to line up a live and exclusive telecast of the India-New Zealand cricket test series. It also announced a tie-up with India's Modi Enterprises to develop sports programming specifically for the sub-continent. "We know that viewers' tastes are different in India, and we will take these differences into account," says Mr Steven Bornstein, ESPN president and chief executive officer.

"Broadcasters have to target each country separately," says Mr Craig Moll, Asia director of Pas-4, the US satellite. "The biggest challenge for most broadcasters today is to keep their audiences hooked," says Mr Bhaskar Ghose, secretary of India's information and broadcasting ministry. "They have to know exactly what their audiences want, and address local and regional tastes."

Channel V, Star TV's answer to MTV (after the two companies fell out last year), could well be a local Indian channel, with Indian languages, Indian songs, Indian video jockeys (VJs), and clever advertising. A pair of very Indian fisherwomen shout out loudly that they want "Red Hot Chilli Peppers," while a local postman in a heavily accented Indian voice says: "I want Metallica's Unforgiven!"

"Channel V needed an identity and personality of its own – it had to evolve into a 24-hour music channel in tune with its environment and its viewers," says Mr Gary Swinstead, managing director of Star TV's Indian operations.

> Sony has earmarked Rs2bn to create original Hindi software

"Indianisation became a part of thet process in not tco different a manner than that employed by other companies adjusting to local markets," he adds. The channel's advertising revenues bave grown by more than 400 per cent since it was launched in April 1994.

When MTV started broadcasting to India via Pas-4, it was forced to include Indian presenters to compete with Channel V. Sony Entertainment Television, which started its channel on October 8, also via Pas-4, has taken on the additional costs of duhhing programmes from Columbia Tristar International Television into Hindi. "We wanted to ensure that the appeal of all that exciting programming percolates into the remotest interiors of India," says Mr Arun Arora, chief executive officer of Sony.

Sony has earmarked Rs2bn to create original Hindi software in the first five years of its operation. The channel faces tough competition from Star's two Hindi channels: Zee, a news and entertainment channel, and Zee Cinema, a pay channel offering Hindi movies.

Cable television is essentially confined to urban areas, with almost no demand outside the big cities. Fewer than 12m of India's 126m rural households own a television set. Indians pay less than $5 for a cable connection from s local firm, bnt the industry has grown so rapidly that larger companies are fast swallowing up the local cable operators.

Under Indian law, anybody can register to be a cabls operator after paying a Rs50 fee. But most of these cannot afford the equipment needed to keep up with technological strides in the industry. Gradually, they are making way for the corporate giants. These include the London-based Hinduja group, whose InVision is set to wire up Bombay and Delhi; the Calcutta-based R.P. Goenk, a group which provides a hardware network in that city; and Siti Cable, owned by the Bombay-based Zee TV, which has already started to operate in Bombay and Delhi.

An unlikely player towers above the clamour and the din of India's cable television industry. Doordarshan, India's state-owned TV network, has made a helated but spirited start to capitalise on its tremendous advantage over the cable television industry. Most of its 20 channels, many of which are in regional languages, can be accessed with a simple antenna, and do not need cable wiring or e dish.

Doordarshan has a network of 17 transponders on the Indian Insat satellites. By renting a transponder on Pas-4, the state-owned broadcaster has also entered cable television homes to compete with an extra-terrestrial invasion which has caught it unawares, reaching an audience of over 300m people through an estimated 46m television sets.

The state-owned network's complacency over cable television turned to concern after cable operators began to put Pakistan's state-owned television, with its daily diet of anti-India rhetoric, on the air. To ensure that its reach extended beyond Indian borders, Doordarshan tied up with CNN, the international news channel, to broadcast to India and southern Asia through the Insat2B satellite.

CNN allows four hours of programming to private Indian news producers through Doordarshan. It pays Doordarshan $1.5m a year to share its platform and also splits advertising revenue on a 50:50 basis. Now Doordarshan is talking to Home Box Office and other private channels to enter into similar arrangements.

Doordarshan's network, built by successive governments to be used as an effective propaganda tool in the world's second largest democracy, has now turned into a money-making machine. The fare it offers is not very different from that offered by private broadcasters, and its reach is considerably larger. The state broadcaster earned gross advertising revenue of Rs3.98bn in 1994-95, compared with Star TV's Rs372m and Zee's Rs1.48bn. It expects to earn Rs4.6bn in the current financial year, compared with Star's projection of Rs558m and Zee's estimate of Rs2bn. Experts say there is bound to be a shake-out once TV audiences have tested all the channels. Right now, the main worry is that most Indian TV sets cannot receive more than 20 channels, but that can be rectified with a set-top converter costing Rs5,000.

Information technology: by Paul Taylor

Leapfrogging the generations

The IT revolution is beginning to stimulate parts of India's gargantuan bureaucracy

The liberalisation of the Indian economy has caused an explosion of interest in information technology ranging from personal computers and computer networking to digital cellular telecommunications.

While India's fast growing middle class is developing an appetite for the multimedia home computers, pagers and cellular telephones, leading entrepreneurs are beginning to use technology to transform the nation's ageing industrial infrastructure.

The IT industry's turnover itself has increased by almost 60 per cent to around Rs68.4bn ($2.2bn)over the past 12 months, according to figures compiled by Computers and Communications, an authoritative industry magazine.

The advance was led by domestic hardware sales which grew by 87 per cent to Rs23bn, domestic software sales which posted a 54 per cent increase to Rs10.7bn and software exports which grew by 51 per cent to Rs15.4bn.

Growth in domestic IT spending has been fuelled in part by a steady reduction in import tariffs on computers, peripherals, software and components and a growing recognition that investment in IT is necessary if India is to compete in open, global markets. Accordingly an estimated 70 per cent of Indian IT spending is in the corporate sector.

Manufacturing industry in particular is turning to IT and sophisticated technologies such as client-server computing to help it compete in the newly deregulated domestic market. In some instances it is leap-frogging technology generations to build sophisticated client/server and enterprise-wide computer networks using high performance hardware and satellite data communications.

Similarly India's service sector, including the financial services industry, has begun to recognise the need to use IT to help modernise its antiquated and labour-intensive infrastructure.

The urgent need for such moves, particularly in the state-controlled areas of the economy, was highlighted in a recent World Bank report on the application of IT in India. The report estimated that cheque clearing through the banking system takes six weeks instead of six days, that about 10 per cent of the value of traded commodities was spent on paperwork at ports, and that an astonishing 258 signatures were required for export clearance.

However, modest progress has been made in some areas. Automation of the railways reservations system, which assists more than 11m passengers a day, has reportedly reduced waiting times from 80 minutes to five, and in the wake of securities scandals in Bombay, a computerised trading and settlement system is being built.

The public sector banking system, now facing new competition from private sector banks, is beginning to introduce some automation, and a degree of competition has been introduced into public procurement.

Despite this progress India's installed base of high technology products remains small by western standards – for example there are only around 1.2m PCs in the country and only eight telephone lines per 1,000 people. China, by comparison, has 17 per 1,000 people and Malaysia has 130.

Nevertheless the potential size of the Indian market and its recent strong growth has encouraged both domestic and multinational suppliers to invest heavily in new manufacturing and distribution operations.

As a result, large domestic IT conglomerates with a wida range of business interests such as HCL, Pertech Computers and Wipro Infotech are beginning to emerge. HCL, whose operations range from software services and training to hardware design and manufacturing, saw its turnover climb 71 per cent to Rs6bn in the year to June 30.

Overall the five largest hardware vendors HCL HP, Wipro, PCL, TISL – the fast growing joint venture between International Business Machines and Tata Consultancy Services – and Fujitsu ICIM, now account for almost 60 per cent of domestic hardware revenues.

This year about 450,000 personal computers will be sold in India, but within the next few years annual sales are expected to break through 1m. "There is huge growth and tremendous opportunities in this market, says Mr Rajiv Nair, Microsoft's country manager.

Microsoft, which has established a formidable distribution network in the sub-continent, is among the US multinationals who have seized upon the opportunities presented by the opening up of the domestic markets and the sharp reduction in import tariffs over the past 18 months.

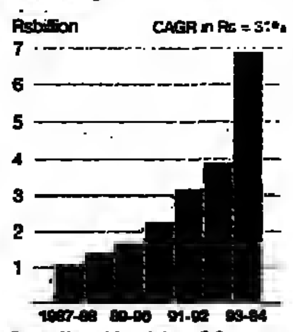
Import duties on computers have been cut from 65 per cent to 40 per cent while tariffs on software packages have been reduced from 65 per cent to 10 per cent. Aside from helping to generate the recent surge in both software and hardware sales, these tariff reductions are helping to eliminate "grey market" imports and software piracy.

Longer term most analysts believe the changes will lead to the proliferation of imported brands. This trend is already apparent in the strong sales of computers from the world's leading vendors including Compaq Computer, IBM, Hewlett Packard, Digital Equipment and Apple.

Almost all the large multinational computer system vendors now have local sales and distribution, and some have Indian manufacturing partners. Similarly, in the telecommunications field, American Telephone and Telegraph, Motorola, Siemens, Philips and Alcatel have all established a strong domestic presence.

However, the area which has attracted most overseas interest is India's software development industry. Multinational software companies including Novell and Oracle have also set up design centres to take advantage of India's cheap but sophisticated technical skills, along with the offshore software development operations established over the past decade by companies such as Texas Instruments.

Domestic software industry



Source: National Association of Software and Services Companies

Meanwhile, India's fast growing indigenous software development and engineering sector, led by Tata Consultancy Services, Infosys and IIS Infotech, is starting to turn its attention towards the domestic market, although export growth remains strong.

Over the past decade India has built a solid reputation for software programming and semiconductor design. According to the National Association of Computer Software and Services (Nasscom), the software sector grew at a compound rate of almost 30 per cent between 1987 and 1992.

"This year's revenues will reach about $1.3bn and we expect to reach $5bn a year by the end of the decade," says Mr Dewang Mehta, Nasscom executive director. For much of the 1980s, Indian software exports were based largely on "body-shopping" – sending software engineers or programmers abroad to work on a client's site. However in recent years, as confidence in the quality of Indian software engineering has grown, more work has been done offshore. According to Nasscom, offshore work, mostly for US and European customers, accounted for 5 per cent of revenues in 1989 but will reach 45 per cent this year.

Companies such as Infosys now offer their clients offshore development centres, based in India. The idea is to provide an overseas customer with a dedicated software team which, via a satellite link, can serve as an extension of his own operations, using his computer installation, without having to set up a business in India.

The quality of research: by Bronwen Maddox

An underrated world-class asset

Entrepreneurs have been slow to appreciate the calibre and industrial value of Indian science

It is now commonplace to call the ring of high-technology companies around Bangalore "India's Silicon Valley". It is less well recognised that the phenomenon has been driven partly by the underlying strength of Indian science.

For decades, India has cultivated excellent scientific research. Its government-funded laboratories and institutes of technology have churned out qualified academics and technicians. It has an estimated 140,000 scientists working abroad.

Those should be powerful assets in its development, compared, for instance, with China, which lost a generation of scientists in the Cultural Revolution. But until recently, Indian companies have made remarkably little use of that base of knowledge and skills.

Recently, entrepreneurs have been starting to discover the value of India's laboratories. However, at the same time, in a move which scientists argue threatens future growth, ministers are casting an increasingly tough eye on higher education and research budgets.

Many of India's laboratories are world class in at least some areas of research. Prof G Padmanaban, director of the Indian Institute of Science at Bangalore, one of India's leading research organisations, says that his institute is outstanding in information technology, materials technology, and parts of biology and biotechnology. He points out that Indian institutes have a considerable advantage over those in other countries such as China and Russia in that all students speak English, the language of international science.

Surveys show that Indian scientists are also prolific. According to figures compiled by Mr Vincent Cable, director of the economics programme at London's Royal Institute of International Affairs, the ratio of scientific papers to GDP in India is 128 per cent of the world average; China's is just 46 per cent. But with a few exceptions, Indian laboratories have not tended to convert discoveries into wealth-generation.

According to Mr N K Sharma, managing director of the National Research Development Corporation, an enterprise set up by the government to foster technology transfer, the industrial licensing regulations, lifted only recently, carry much of the blame. The constraints "kept companies small, and kept industrial R&D small", he says. He also blames the wrong kind of training: "India has been investing too much on basic not applied science. The Indian Institutes of Technology are very good but their training is more suited to developed countries".

Scientists and business people both acknowledge that part of the problem has been the pronounced gulf between the academic and commercial cultures. "Scientists, who see themselves as intellectuals, have shunned getting their hands dirty" says one Bangalore scientist-turned-businessman.

There have been notable exceptions where technology transfer has worked well for years, particularly in large, government-backed projects. The civil nuclear programme and the space programme are instances where research has found rapid, valuable application. The Indian Space Research Organisation, which started in 1963, puts up a robust defence of why India needs to make and run its own satellites.

"It is not a fancy item, like sending people to the moon – it is more like giving them electricity and water," says Mr S Krishnamurthy of ISRO. The satellites are used for supplementing the telecoms networks, broadcasting television to rural areas, and for the meteorological forecasting on which millions depend.

More recently, the satellites have enabled ISRO to predict the yield of crops up to two months before the harvest. Their use in predicting the movement of schools of fish has helped fishermen increase catches fivefold, says Mr Krishnamurthy (he shrugs off the possibility that stocks will dwindle).

The manufacturing cost is exceptionally low by international standards – just Rs700m for each satellite, although each launch costs double that figure.

In the past few years, smaller scale examples of technology transfer have also proliferated, as "Silicon Valley" demonstrates. Mr B R Krishna Kumar, managing director of the Bangalore-based TurboTech Precision Engineering, is typical of the new generation of engineers-turned-entrepreneurs.

Trained partly in the US, he argues that the end of industrial licensing has allowed a new entrepreneurial culture to spring up. Licensing had prevented Indian industry "from developing the culture of making new things, finding new techniques", he says. Moreover, the recent devaluation of the rupee has increased Indian companies' incentive to manufacture components themselves.

His company plans to make low-cost gas turbines, costing only about Rs5m, to sell to large companies or institutions for combined heat and power generation. Using his experience of designing US turbines, he has stripped out all the "frills" of equipment sold in the west in order to bring down the price.

The government and leading banks are increasingly prepared to back such projects. Of TurboTech's total funding of Rs25m, the Industrial Development Bank of India has supplied Rs10.5m in venture capital, and the Department of Scientific and Industrial Research has put in Rs7m. TurboTech's owners hope to achieve a 19 per cent return on capital after taking account of all bank charges.

If such expectations are proved right, more Indian scientists abroad may return to take advantage of the new commercial climate. That trend may prove a mixed blessing for the quality of pure research: Prof Padmanaban fears that the brightest students, who would formerly have been attracted by academic science, now want to be managers or engineers. His 28 year-old daughter, a computer scientist who has studied at Amherst in the US, has a salary approaching his own, he says.

But a greater threat, perhaps, is that government funding is likely to be squeezed, both for higher education and for pure research. The Bangalore Institute's budget has been frozen from 1993 to 1997. Some ministers are now arguing that spending on higher education should be cut in favour of primary education, which they argue is needed more desperately, and is less "elitist".

To Prof Padmanaban, such cuts would be a false economy. While primary education is undeniably needed, higher education and research are a "fraction of the cost", he says. "Without basic science there will be no applications. Sometimes I think they forget that".

India's software industry will be featured in a special report with the next issue of the FT Review of Information Technology, to be published on December 6.

■ **Oil exploration:** by Khozem Merchant

In urgent need of lubrication

Foreign exploration companies are frustrated by the slow pace of licensing reform

There is a dispiriting familiarity about the Indian government's auction of oil and gas exploration licences. The exercise is sometimes delayed, decisions are frequently deferred and the response, notably from foreign companies, is consistently disappointing.

The most recent occasion was in September, when 22 bids were tendered, all for eight blocks of 28 on offer in a "joint venture round" to attract foreign exploration partners for the state-owned Oil and Natural Gas Corporation. It was, said a senior official at the ministry of petroleum and natural gas, "a disappointment. I was expecting more."

That is also the conclusion of some foreign oil and gas companies on government moves to open up the Indian market to international competition. For the economic liberalisation policies of prime minister PV Narasima Rao have so far found little echo in the hydrocarbons sector. It remains heavily regulated in terms of exploration, refining, pricing and marketing, and dominated by state-owned companies.

"There is no real sense of ideological change at the petroleum ministry. You expect to see a liberated sector but the state-owned companies still have the upper hand," says a western oil executive in New Delhi.

One consequence is low involvement by western companies in India's exploration programme at a time when the country's oil reserves are being consumed more swiftly than they are being replenished. India's energy consumption, fuelled by rapid economic growth, is forecast to rise annually by six per cent for the next 15 years – three times the world average. To meet this demand it would need to double its recoverable reserves of 722m tonnes which, at current rates of consumption, will be exhsusted after 26 years.

"In recent years, there has been a strategic shift in increasing production from existing fields – such as Bombay High, which provides 65 per cent of India's oil and gas and is in its declining phase – at the expense of exploration. The government must step up exploration. There may not be another Bombay High," says Avadhoot Sabnis, an oil analyst with James Capel B&K in Bombay.

September's licensing round, the ninth, was the most determined effort so far to entice foreign exploration companies, but they continue to resist the bait. Their complaint is three-fold: ONGC always gets the best acreages; there is a lack of transparency in data on fields; and, most significant, long delays in the award of contracts. The fifth round of exploration licences in January 1993 is still unresolved.

"India's terms of production-sharing contracts are regarded as among the best in the world. However, the time taken to finalise contracts needs to be substantially reduced," says Mr Sabnis.

That view is echoed by Dr Vijay Kelkar, secretary of the ministry of petroleum and natural gas and an author of the influential R (for reconstruction) Report, which is likely to form the basis of government policy. He told an energy conference in New Delhi in September: "Our industry has to *be capable of operating globally*... to achieve this the most important factor would be the creation of a competitive market structure...and promoting policies that will encourage massive investment..."

Any genuine attempt to achieve this must first address the range of price and operational controls that govern every aspect of the industry.

The government's aim is three-fold:

- to do away with the "Adjusted Price Mechanism" (APM), a complex instrument which controls the prices of 95 per cent of all refined products. A system of cross-subsidy ensures that politically sensitive products such as kerosene, used by the poor as a cooking and lighting fuel, can be subsidised, while the prices of industrial fuels such as gasoline and naphtha can be kept high.
- reform state-owned giants such as ONGC, which produces 90 per cent of domestic crude (29.36m tonnes of crude and 17.94m cu m of gas last year). ONGC provides 45 per cent of the crude requirements of the downstream operators (the rest is imported), an oligopoly of five companies. The biggest is Indian Oil Corporation (IOC), with 55 per cent of the petroleum products market and 44 per cent of refining capacity.

> Oil companies will want the freedom to buy, refine and sell their own crude

- and create an internally competitive market.

Progress has been slow so far. "We are talking about a gradual removal of price control... initially on industrial fuels, then on consumer ones. Nor do we envisage further large-scale disposals [in state-owned companies]; these companies are profitable, why should we sell?" says a senior *ministry official*.

Apart from the lubricants market, which was fully deregulated in 1991 and which, today, is the only area of active involvement for foreign companies, and the announcement of a programme of "accelerated exploration" designed to raise some Rs60bn of public and private funds over three years to 1997, the reform agenda remains unfulfilled.

The first signs of the way ahead should emerge early next year when details on a successor regime to the APM will be revealed.

The APM is a controversial issue touching as it does both the commercial prospects of downstream refiners – the market for petroleum products is worth $12bn and forecast to grow annually by 6 per cent until 2000 – and the politically sensitive issue of subsidies; kerosene absorbs half the total Rs85bn in annual subsidies.

"There is no way you can have a level-playing field while subsidies exist. But it will be five or six years before they are rationalised and hopefully over time they [higher prices] will become politically defensible," *says the ministry official*.

The APM – along with all other aspects of pricing, crude imports and product distribution – is run by the ministry of petroleum's "oil co-ordination committee" (OCC), a powerful policy-setting authority answerable to the minister.

The OCC, for instance, sets the price at which ONGC and its minor stable-mate, Assam-based Oil India, must sell crude to the domestic refiners. Currently the gross price is Rs3,169 ($13.6) a barrel of which ONGC receives $7.5 after taxes. This gross price is currently about $3 below prevailing world market prices. The "accelerated exploration programme" includes, for the first time, an agreement to pay prevailing world prices for new oil found by the private sector.

If ONGC were permitted to sell crude at prevailing world prices its profits - Rs23.45bn ($690m) post tax for the 14 *months ending March 1995* – would rise by nearly half, say analysts.

Under the APM, downstream companies' profits are restricted to a 12 per cent return on equity. If price controls are scrapped, IOC's profits would rise six-fold, say analysts, enabling it to modernise after an 11-year freeze on investment. IOC reported after tax profits of Rs10.19bn ($300m) for the year ending March 1995, up 32 per cent on 1994.

The first signs of fairer regulations are likely to emerge downstream, probably within two to three years by which time planned capacity should have come on stream.

Most prospective Indian private-sector interest is focusing on downstream activity and it is there that demand for reform is heard most loudly. The Sundararajan report, the work of industry representatives and now on a ministerial desk, advocates wholesale deregulation including, for instance, the abolition of IOC's monopoly on pipelines, which gives it a competitive edge in marketing.

In the meantime, the big domestic groups are jostling for position. Petrochemicals group Reliance, truck manufacturer Ashok Leyland and steel, power and shipping group Essar head a long list of Indian groups hoping to build refineries. At the same time, existing refiners are either expanding capacity or, like IOC, HPCL and BPCL (the latter two with Oman Oil Company), building green field sites. Among the foreign major oil companies, Shell is in talks with BPCL on a joint venture refinery. Total refining capacity, currently 56m metric tonnes a year, should more than double by 2000. Oman is also involved in a $5bn gas pipeline project with ONGC. If successful, and feasibility studies are under way, the 1,100 km pipeline would be the deepest offshore project in the Arabian Sea. It would also be a conspicuous example of the kind of foreign collaboration the government desires. *Only 29 per cent of* India's oil and gas bearing fields have so far been explored. Many of these fields require a level of technological sophistication and investment possessed only by the western oil majors. But few foreign companies are likely to take the plunge without guarantees on their freedom to buy their own crude, operate their refineries and sell their own goods through their own networks.

■ **Aluminium:** by Kunal Bose

A question of mettle

The flow of imports is increasing the pressures on India's own smelters

Until a few years ago the Indian aluminium market was tightly controlled. Imports were strictly curbed and the output, distribution and prices of the local producers were regulated by the federal government.

That has all changed. Indian aluminium makers find themselves competing against imported metal, thanks to the sharp lowering of import duties. At the same time, Indian aluminium producers have themselves moved into the export market.

Three years ago, wide-ranging reductions on import duties were recommended by a government panel, the so-called Chelliah committee, leading to rapid reform of the customs duty structure. The duty on imported aluminium was reduced from 25 to 10 per cent, a bigger cut than the committee had poroposed.

Domestic producers still had competitively low costs, partly because they have plentiful local supplies of bauxite, the main raw material, as well as low wages. But they nevertheless had to raise their efficiency by other methods, such as investing in more efficient smelters and power stations.

In addition, export prospects improved last year when international prices and demand began to recover, a factor which also eased the pressure *of imports into India*. In the year to March 31, 1995, India exported around 95,000 tonnes of aluminium compared with imports of 45,000 tonnes.

Besides pegging the import duty at 10 per cent, the government has reduced the local excise duty on aluminium to 15 per cent in phases. Having benefited from the surge in demand, the producers have passed on the benefit of the lower duty to the consumers.

According to Mr A K Agarwala, president of Hindalco, India's second largest aluminium group, "the demand for aluminium grew by over 10 per cent last year because of the general buoyancy in the economy and low excise duty. I think the Indian demand will grow by at least 8 per cent till the end of the century."

Mr S Acharya, director of the government-owned National Aluminium, agrees that the growth rate in aluminium consumption in India will be among the fastest in the world. The per capita consumption of the metal in India is a little over one pound against 60 pounds in the US and 30 pounds in the UK. The low Indian consumption of the metal is to be blamed on low investment during decades of government control.

With the increasing globalisation of the aluminium business, consumers are insisting upon higher quality metal and products. That Indian metal has improved in the last few years is confirmed by the award of the prestigious international ISO 9002 certificate to leading local producers. Indian aluminium companies have become extremely cost conscious as shown by the improved energy efficiency of their smelters and their readiness to invest in new technologies.

National Aluminium, a relatively new unit which started producing metal in 1989, is using technology of France's Aluminium Pechiney to run the alumina (aluminium oxide) refinery and smelter. Indian Aluminium relies on technology of its Canadian parent company Alcan.

> India's big bauxite reserves could make it a leading world supplier

Hindalco, in the midst of a largescale expansion, is buying technologies from Reynolds, Alusuisse, Aluminium Pechiney and Davy Mckee. The Indian companies have also strengthened their in-house research and development centres. "Globalisation of Indian aluminium business is changing the face of the Indian *industry*," said *Mr Agarwala*.

The industry's principal challenge is to meet the growing Indian demand for the metal without cutting exports which, according to Mr Acharya, "give you a feel of what is happening in the world market". India has an aluminium smelting capacity of 605,000 tonnes and last year produced about 480,000 tonnes. Output this year should be around 530,000 tonnes with all the units chasing higher production targets. But India will need much more metal than it can produce at present.

National Aluminium is raising its capacity by 12,000 tonnes to 230,000 tonnes through easing production problems at its smelter at Angul in Orissa. The company is seeking government approval for the installation of a third potline of 240 pots alongside the existing two potlines at Angul to take the smelting capacity to 345,000 tonnes. This has to be supported by an additional power generation of 240MW. The company has also proposed to raise the alumina refinery capacity to 1.35m tonnes from 800,000 tonnes in two stages.

Mr S.K. Tamotia, chairman of Nalco, has said that his company should generate enough profits to cover more than half the nearly Rs30bn required for expanding the alumina refinery and smelter. "We can easily raise loans and arrange for suppliers credit for the balance amount," he said. Even so, the government is taking its time about clearing the proposal.

Hindalco will be completing the expansion of its smelter at Renukoot in Uttar Pradesh to 210,000 tonnes from 170,000 tonnes by October 1996, after which the capacity will be further raised to 242,000 tonnes. Indian Aluminium is to raise the capacity of its smelter at Hirakud in Orissa by 25 per cent as it revives the 75,000 tonne smelter at Belgaum in Karnataka. Sterlite, which is recommissioning Madras Aluminium, will expand the Salem smelter in Tamil Nadu.

Some industry officials think that India, which depends entirely on coal-fired electricity to run the smelters instead of the much cheaper gas-based and hydroelectric power, should create fresh alumina refining capacity and obtain access to alumina smelting plants offshore. If India went in for toll processing in overseas smelters, it would save at least $300 a tonne, according to one estimate.

With an estimated 2.65bn tonnes of bauxite reserves, the world's fourth largest, India is well placed to become an important world supplier of alumina.

The reserves are also of good quality. Indian bauxite is rich in alumina and low in kaolin and silica. It is soft and easily grindable. The cost of mining in India is also relatively low. Because of these advantages, Indian Aluminium and Larsen & Toubro plan export-oriented alumina projects in Orissa.

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■ **The motor industry:** by Mark Nicholson

Traffic becomes heavier

Many more cars are taking to the roads and drivers now have an ever widening choice

The motor industry is expected this year to make more than 300,000 cars. By 2000, many in the industry expect sales to have more than donbled to between 700,000-800,000 passenger vehicles. And if all the manufacturers which have lately announced plans for the industry in India meet their stated targets, capacity in India's motor industry by 2000 could comfortably exceed 1m cars.

The flow of new announcements of joint ventures or licensing agreements between Indian groups and global carmakers had, by the end of this summer, become something of a torrent. The Indian government abolished industrial licensing in the passenger car sector in June 1993 and the car business now appears poised for an explosion.

Indian motorists have seen nothing like it. For decades just three companies have dominated the hitherto limited market for passenger cars, which were regarded in post-Nehruvian India as a luxury item and taxed accordingly. Hindustan Motors' Ambassador, based on a 1950s Morris Oxford design, and Premier Autmobiles' Padmini, derived from a similarly venerable Fiat, had the roads to themselves until 1983 when Maruti, the Suzuki-Indian government joint venture, introduced its revolutionising 800cc "people's car". Maruti has introduced further models since but, as its present 71 per cent share of the car market suggests, choice has otherwise remained restricted.

Already, bowever, new vehicles are starting to appear on Indian roads. The first new arrival, earlier this year, was the *Cielo*, a model based on the Opel Kadett produced by a joint venture of DCM, the Indian commercial vehicle maker, and Daewoo, the Korean car group. DCM-Daewoo won 70,000 advance orders for the model which, at more than Rs500,000, is more than twice the price of the Maruti 800. Last month, the first Mercedes E220 saloons rolled out of the factory in Pune where Daimler Benz and Telco, the fast-diversifying Indian truck maker, have entered into a joint venture. But this is just the beginning.

Among the other tis ups announced in the past year are:

● Hindustan Motors and General Motors of the US to produce the Opel Astra in a 50-50 joint vanture. Hindnstan Motors has meanwhile also reached a licensing agreement with Mitsnbishi to produce Mitsubishi's Lancer. HM says it will also continue producing both the Ambassador and the Contessa, a saloon based on the old Vauxhall Victor.

● Premier Automobiles and Peugeot in a joint venture to build tha French group's 309 saloon. Premier is separately to produce the Fiat Uno in agreement with Fiat and possibly also the Italian company's proposed new "world car".

Two Indian companies aim to challenge Maruti head on

● Mahindra & Mahindra, the Indian ntility vehicle maker, in a joint venture to produce both the Escort and the Fiesta, the latter in a plant with capacity likely to exceed 100,000 vehicles a year.

● Siel, the Indian engineering group, in a 49-51 per cent venture with Honda, to make the latter's Civic.

And more will follow. BMW, for instance, is believed likely to tie up to make motor vehicles with Hero Honda, the Indian motorcycle gronp already planning to produce BMW motorbikes in India. The Hindujas, the non-resident Indian investors, are preparing separate feasibility studies on car production with Daihatsu and Toyota. Hyundai is scouting the country for a partner. Volkswagen and Eicher, the Indian commercial and farm vehicle group, are also looking to introduce the Golf to India. Meanwhile, Bajaj, India's biggest two and three-wheeler maker, is also courting partners, and has held talks with Renault, Fuji and Chrysler.

Perhaps the most noteworthy aspect of the new foreign-Indian joint ventures is that virtually none of them aims to *issue a direct challenge in* the low-price, high volume sector of the market at present dominated by Maruti. Most ventures aim to produce cars further upmarket, selling in the Rs400,000-Rs700,000 range and in volumes of 20,000-50,000.

The reason for this is that few incoming manufacturers believe they can compete with Maruti on cost, and thus price. Not only has Maruti's plant now been largely depreciated, it also offers levels of indigenisation few incoming manufac*turers could readily match.* Depending on the model, 82 to 95 per cent of Marutis are locally made, and Mr R C Bhargava, Maruti's managing director, reckons that Indian components can he produced at up to 40 per cent less than equiva*lent items* in *Europe or Japan.* Moreover, the Indo-Japanese joint venture has a national network of marketing, sales, distribution and servicing agents which newcomers would also find hard to match.

Foreign incomers, therefore, are *aiming* to create a new market sector upmarket of the basic Maruti 800cc vehicle and even the company's bigger 1300cc Esteem model. Their view, and thet of their local partners, is that there exists both desire and real demand among India's middle classes for bigger, pricier models. "India is a market where you don't just add up the numbers," says Mr Anand Mahindra, deputy managing director of Mahindra & Mahindra. "This is a very rich market in which to devise niche strategies."

M&M, accordingly, is introducing the Escort, while also planning to build a Fiesta plant with capacity above 100,000 cars a year, in the expectation that the present high-volume, *low-price market* dominated by Maruti will mature and segment. The company, and most of the other Indo-foreign ventures, also believes that India, although poor, has enough consumers with the disposable income to afford vehicles at twice or thrice the price of the Maruti 800 (RS200,000).

At the National Council for Applied Economic Research in New Delhi, the research of Mr R Venkatesan, an associate director, supports this view. *There are, he says,* np to 450,000 rupee millionaires in Indie based on a recent NCAER study – and this figure takes no account of "black market" money. His own research, which he says counts thousands of interviews with Indian motorists, shows *that* many present Maruti drivers wish to upgrade their cars. He says that fully a quarter of Indian car owners bave two cars and that car loan schemes are being made available by a growing number of banks and *financial institutions.*

Recent research by Morgan Stanley showed that half the purchases of the Maruti 800 are now made on credit, double the figure of just a few years ago, while 60 per cent of the orders for the more recently introdnced *Esteem were placed* through car finance companies.

Most industry analysts in India, therefore, are generally confident that there will be real demand by 2000 for 700,000-800,000 passenger cars and therefore, quite possibly, for the majority of the new entrants aiming to create a new middle-to-upper market segment.

Analysts also agree, though, that the bulk of Indian car sales will remain in the low-cost segment – the present 800cc class. Maruti itself believes that by 2000, a full 60 per cent of all sales will be in this class, by which time the company hopes to have increased ontput from this year's expected 275,000 cars to more than 450,000.

Bnt while no foreign entrants to India's car market aim to challenge Maruti directly, at least two Indian companies propose doing so. One is Bajaj, which is discussing a *small-car* project with three foreign groups. More immediately, however, Telco has already unveiled the prototype of its planned small car – one which it believes can be selling 275,000 units by 1997 through its established national dealer network.

■ **Textiles:** by R C Murthy

Germany slams the door

The use of dyes banned in parts of Europe is seriously affecting India's biggest industry

A crisis is looming for India's largest industry following Germany's announcement that it intends to ban imports of textiles and clothing using amine-based Azo dyes.

Textiles account for 30 per cent of India's exports. Yet two-thirds of the country's textile exports are coloured with the banned dyes: and Germany is India's second-largest textile export market, after the US.

There is no evidence that the dye can harm people who wear clothes containing them, but they have been proved to cause bladder and liver cancer in the workers that produce them.

Germany is set to ban all goods containing the dyes under a set of consumer goods regulation that come into force on April 1 next year.

This is creating a dilemma for the Indian authorities, who are caught between the political sensitivity of forcing domestic producers to make costly changes in their processes and the impending loss of a primary export market.

The Indian textile industry is divided into three types of fabric producers:

● large, industrial scale mills;

● low cost power-driven weaving looms located in backyards and operated by sweated labour;

● a cottage industry, which uses handlooms.

The mills, which are outdated and inefficient, and the handlooms have for years been losing market share to the powerlooms, which make the most use of India's main competitive advantage in the textiles industry – low labour costs.

However, the powerlooms sector is made up of hundreds of thousands of tiny operations, making any kind of enforcement close to impossible.

This would not matter if switching to alternative dyes was both advantageous and easy for powerloom producers. But it is neither.

There are hundreds of Azo dyes, but the 120 to 150 amine-based Azo dyes which are set to be banned are among the cheapest and most effective dyes available. Switching to safer alternatives would raise producers' costs.

There is also a problem of availability. Three quarters of the dyes produced in India are amine-based Azo dyes. This, says Mr D K Gupta, senior director of the Apparel Export Promotion Council, may mean that a shift to safer dyes is not possible for small textile producers.

The government could enforce a switch simply by banning the production of the dyes but such a step faces political resistance.

Germany is alone in introducing such stringent regulations. Most western chemical companies stopped producing the amine-based Azo dyes several years ago, after the health risk to workers had been established, but no other country has banned their use in consumer goods.

Within India, the ban has been interpreted as a hidden trade barrier, an issue about which the country's producers are acutely sensitive.

Market access has been the single greatest limit on the growth of India's textiles industry.

Exports to its two largest markets, the US and Europe, are still subject to quotas under the Multi-Fibre Arrangements. These have just begun to ease under the 10-year phase-out of the MFA agreed as part of the Uruguay Round of world trade talks.

But accelerating the process has required concessions, which have worked against the powerloom producers.

Earlier this year, both the US and Europe agreed to remove quotas on handloom fabrics in return for a reduction in India's own tariff barriers and reforms of its local tax, minimum pricing and export subsidy arrangements.

The removal of these protective measures caused an outcry among the mill and powerloom producers, as did the deals' concentration on benefit for handloom exporters.

The decline of the handloom sector has been highly emotive within India. With more than 3m handloom households earning less than $25 a month, handloom weavers have been reported as starving in some regions.

The government has been keen to improve the outlook of this sector, but in doing so it has used up much of its leeway in holding a strong line against the interests of the mills and powerloom producers.

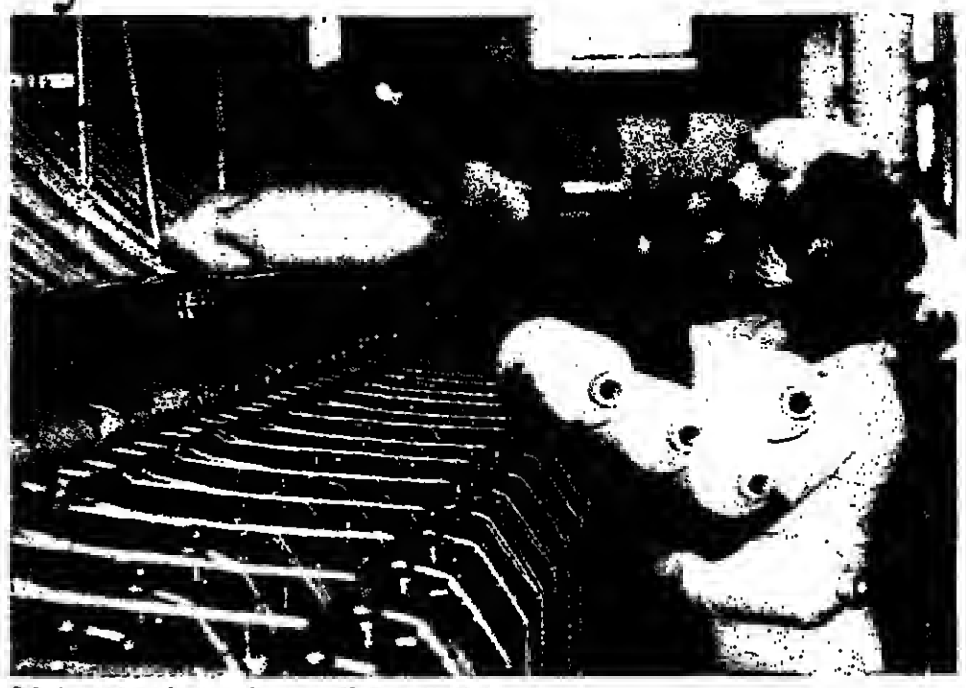
It has defused this tension a little with the approval of a *long stalled £700m* modernisation programme for 115 national mills.

But the powerloom producers, who still comprise the backbone of the industry, have seen few gains from liberalisation and accession to what they interpret as foreign demands.

They have also suffered this year from the failure of the cotton crop, which has curbed the sector's output, despite record levels of textile exports recorded last year.

Across the sector, producers have moved to resolve the double problem of higher costs caused by the cotton shortage and the removal of subsidy, and limited market access, by linking up with foreign producers or by moving into specialist products, such as sportswear.

But a ban on their main dyes would receive a very hostile reaction. The alternative, if Germany proceeds, will be the loss of a very large export market from the second quarter of next year.



Spinning cotton prior to dyeing: precautions are necessary

■ **Electricity supply:** by Mark Nicholson

Long road to sufficiency

To eradicate India's growing power shortages would cost a staggering $160bn

There is a mood of grim realism in the corridors of India's power ministry.

In his more recent public appearances Mr N K P Salve, the power minister, has struck an increasingly Jeremiah-like tone. He has noted that India, with average per capita consumption of just 315 kilowatt hours a year, is in the bottom 5 per ceot of the world's power consumptioo league and that the situation could further deteriorate before it improves.

A simple audit of India's power demand and supply balance makes the point. Present generating capacity in India is just over 81,000 megawatts – 71 per cent of it thermal and most of the remainder hydro-electric. Demand, however, is even higher – in 1994-95, according to the Centre for Monitoring the Indian Economy, power shortages averaged 7 per cent countrywide, with the shortage *at peak periods reaching 16 per* cent.

To meet expected demand by 2007, Mr Salve says, India will oeed to add *an* extra 142,000MW of new generating capacity – something he says will cost an awesome $160bn in fresh investment.

However, the expansion rate of generating capacity has slowed sharply in recent years, due mainly to a sharp fall in *investment from the strapped* central and state governments. Thus while additional generating capacity was added at a rate of 8.4 per cent a year in the 1980s, this fell in just over 5 per cent in the early 1990s and is not likely to exceed 2-3 per cent for this year and next.

"Shortages," Mr Salve said recently, "are therefore likely to be doubled. There is no way out except unrelenting efforts to augment capacity."

Hence the government's conclusion in 1991 thet there was no alternative but to open the country's previously state-dominated power sector more widely to private and, particularly, foreign capital and expertise. *Available public finance* for additional capacity was, the government realised, wholly inadequate.

So far the results, says Mr Salve, have been "fairly encouraging". More than 230 proposals have been made for private power projects, envisaging a potential addition of 92,972MW of generating capacity. Of these, more than 50 projects have been proposed by *foreign investors for* a *capacity* addition of 38,500MW. However, as Mr Salve also acknowledges: "These figures are far more impressive on paper than at ground level."

To date, not a single megawatt of new, private generating capacity has been added to the country's public power system. Worse, from the point of view of the present Congress government's power policy, the sole private power project to have completed its financing and begun construction, and the country's biggest direct foreign investment – the $2.8bn Dabhol project led by Enron Corporation of the US – has run into a political quagmire in *the western state of Maharashtra*. In August, the project was "scrapped" by the state's Hindu nationalist coalitioo government, only for the government to decide it could be renegotiated in September, thus suspending the enterprise in costly delay and uncertainty.

The Dabhol project, therefore, has achieved precisely the opposite effect to that intended *when the Indian government* invited Enron, along with a small number of other experienced international power groups, to enter the Indian power market with a select number of negotiated power deals in states across tha union.

Dabhol, along with thesa other projects, was to be a confidence booster: a project which would demonstrate that private power in India was feasible, the risks manageable and that the business could be profitable. Instead, it has *pushed* up *risk premia, high*lighted the awkward complexities of relations between the state and centre and underlined *the considerable* political sensitivities of privatising power in a poor country.

Dabhol is not alone in having problems. In Karnataka state, Cogentrix of the US is pushing ahead, with the state government's backing, with its own "fast track" project and hopes to have won outstanding approvals and secured all necessary financing for its 4x250MW coal-fired plant at *Mangalore by early next year.* But, like Enron, the project has become a target for Hindu nationalist groups opposed to foreign investment in power, and for environmentalists who claim the plant will despoil the Western Ghats.

In Orissa state, meanwhile, *AES Transpower*, another US power group, has been forced to renegotiate and reconfigure its project numerous times by the state's government. In fact, by almost any measure, the so-called "fast track" power projects, particularly those *involving foreign participants*, are proving anything but fast and almost all are dogged by bureaucratic delay, political *opposition*, or both.

With the champions of its vital private power policy running aground, the government has responded by reviewing its present approach to private

> **Not a megawatt of private power has yet been added to the public supply**

power, or rather by appointing a committee to make such a review. Tha committee is expectad to recommend not only thet all private power projects should be open to *global* competitive tender – something the government bas insisted on since February this year – but also that the bidding should be made on the basis of the project's eventual power tariff, rather than as at present under a formula in which the project's total construction cost is takan into consideration. The notion is to shortcircuit the accusations of "cost padding" which have dogged soma of the early power projects.

In the short run, therefore, the prognosis appears to be for more delays. Few private power developers believe that there will be much progress with *the existing* "fast track" power projects before the next general elections. At the same tima, developers looking for new ventures are likely to await the government's present policy review.

More fundamentally, there remains the problem of how viable will be power projects which, unlike the "fast trackers", have not been offered central government guarantees of *payments* by tha mostly loss-making state electricity boards which are the customers for the proposed private power.

The government, the World Bank and almost all power developers agree that the only solution lies in sweeping reforms of the state electricity boards to make them more efficient, profitable and thus viable business partners. And in almost all cases the solution requires the depoliticisation of the SEBs so that some charge can be made for the use of electrical power by the country's *farmers. It is the states'* reluctance to charge farmers economic rates for the power they use for irrigation pumps which, more than any other factor, has consigned India's state alectricity boards, with a small handful of exceplions, to their present parlous economic state. India's SEBs *last* year lost a grand total of Rs70bn.

Reforms are afoot – notably in Orissa *(as described in another article on this page)*, but so far rather tentatively elsewhere. Whether tentative reforms will suffice to attract the $160bn worth of capital needed to install the required addition of 140,000MW of power must be open to some douht. Which is presumably why Mr Salve is becoming so gloomy.

CASE STUDY **Power privatisation**

Orissa prepares for a second assault

One of the poorest states finds that privatisation is an elusive goal

The authorities in Orissa, one of India's poorest states, are set to privatise its electricity industry, providing impetus for a national reform plan which has been dogged hy delays and controversy. While efforts to build new privately-*financed power plants* elsewhere in the country have – so far at least – been unsuccessful, Orissa is planning a more ambitious reform, writes RICHARD LAPPER.

Backed by the World Bank, Orissa plans to break-up its loss-making state-owned electricity hoard, the OSEB, and give responsibility to private companies to generate, transmit and sell electricity.

If successful the plan will not only allow Orissa to attract investment in order to meet its needs for power it could also becoma a model for states both in India itself and elsewhere in the developing world.

World Bank *officials insist* that the reform – tha brainchild of former chief minister, Mr Biju Patnaik, is "home-grown" bnt that the model "will become a kind of generic model, in terms of planning and sequencing..."

The reform follows a widespread recognition of the limited progress made by the World Bank's efforts to help India meet its growing needs for power. According to official estimates India's installed generating capacity would have to rise from its present 76,000MW to nearer 142,000MW in 10 years to meet expected demand. But so far the World Bank says its projects have "provided mainly temporary relief rather than sustainable solntions to the power problems. By the mid-1990s politically inspired tariffs and the lack of autonomy have weakened most state power utilities to the point of operational and financial crisis."

Nowhere was this crisis more apparent than in Orissa where well over a quarter of OSEB'a annual revenues came from the state and where the electricity subsidy accounted for a quarter of all Orissa's spending.

Mr N B Misra, an engineer who is managing the reform process for the state's authorities, says Orissa's problems are typical of those faced by atate electricity boards all over India hut that the "crunch came earlier for us. Wa were simply running out of steam."

At present as much as 35 per cent of installed capacity of soma 1,400 MW (of peak *availabla capacity)* is wasted through a combination of theft by customers and so-called technical losses, resulting from poorly maintained or inadequate power lines.

"There is a hell of a lot of wastage and pilferage," says Mr Biju Patnaik, the 81-year old politician and former chief minister who originally proposed the scheme.

Reorganisation – modelled to some extent on practice in the US and the UK – and new investment, financed partially through a $350m World Bank loan, aims to create a better managed and more accountahle industry. Spending on power lines and sub-stations should help improve the efficiency with which electricity is carried around the state.

Some $70m of tha World Bank's money is to be spent on 7m new electricity meters, allowing managers of the new distribution companies to monitor electricty flows more *accurately and identify* where current is being stolen. Theft, achieved by illegally – and dangerously – tapping into power lines could account for losses of 15-16 per cent of output, says Mr Misra.

By freeing the OSEB from state control, the reformers aim to reduce political interference and give managers much greater freedom to administer the business. "The political leadership has more or less been in control, micro-managing everything and interfering in petty things such as whether junior officers should be transferred from one place to another," says Mr S K Mohapatra, the *retired chairman* of OSEB and an adviser to Mr Misra's reform team.

In the past various "haywire schemes" were imposed ou the board, such as extending power supplies to villages where "no consumers apply for connection and where no connaction comes up", ha adds. Reorganisation should halp improve labour efficiency.

OSEB currently employs more than 35,000 workers. "We bave more or lass been regarded as an employment generating agency," says Mr Mohapatra.

Mass "retrenchment" is ruled out for political reasons, although the reformers aim to reduce numbers through natural wastage. But price increases are likely and subsidies will be more carefully targeted. *More efficient costing* and pricing is essential if new capital is to be attracted to new power plants hecause *without realistic revenue* projections investors can have no faith in their projections for future capital returns.

According to Ms Fiona Woolf, a lawyer with McKenna and Co in London and an adviser to the Orissan authorities: "We couldn't simply privatise because we had no idea what the assets, liabilities or the receivables were...You have to start at a grassroots level so that companies can ensure they can afford the power they are contracted to buy."

Power *purchasing* agreements – signed between investors and the companies or state entities which buy electricity – *typically covering* a period of 25-30 years, are an essential feature of all these power investment deals.

Orissa's scheme has taken some time to draw up and implementation of the new structure will not be smooth. Cynics will point to the frustrating experience of AES Transpower, a US power company which initially agreed a $650m investment in two coal fired plants in the north-west of the state, three years ago.

AES has renegotiated its PPA on no fewer than five occasions. Its project manager, Mr Glen Davis, initially expected to spend about nine months in India but has now been here for nearly three years.

Nonetheless the outlook for the overall reform is now relatively bright. Significantly, the *agricultural* lohby which in some other states has blocked calls for reform – in particular the development of more realistic pricing – does not exist in Orissa.

Partially this is hecause rural electrification was never extended to the same extent as in other parts of the country. At the same time, though, it also reflect the fact that Orissa enjoys good levels of surface irrigation and farmers make relatively little use of electric-powered lift irrigation pumps. Indeed, agricultural customers buy only 7-8 per cent of the state's electricity, compared with up to 50 per cent elsewhere.

Last month, the *reform* cleared possibly its biggest political hurdle when it was approved by the central government's *power ministry*. Several steps In a tortuous legislative process have still be taken but Mr Misra is optimistic that all will be completed by the end of the year.

Mr J B Patnaik the Congress(I) politician elected chief minister in March (and namesake of the former chief minister), appears unenthusiastic, claiming that talk of theft levels is exaggerated. But be is now committed to introduce the project within tbe local assemhly.

■ **Food and agriculture:** by Khozem Merchant

Fast food and designer seeds

Commercial and technical changes are affecting the entire length of the food chain

The smiling diners at Kentucky Fried Chicken in Bangalore belie the unease felt by the restaurant's management.

Bal Thackeray, ontspoken leader of Shiv Sena, the largest party in Maharashtra's Hindu nationalist ruling alliance, has threatened to ban the sale of KFC foods in that state, claiming the US company's foods were "a poison".

This month, Delhi's chief minister ordered the city authorities to revoke KFC'a licence in the capital; earlier KFC'a restaurant in Bangalore was served a closure notice by the Bangalore city anthorities after the discovery of high levels of monosodium glutomate – a flavouring additive – in its world-famous fried chickens.

KFC's problema clearly extend beyond fighting for market share. Its parent, PepsiCo, has opened Asia's biggest food processing plant in Punjab and, as one of several high-profile multinational food and drink groups in India, it is at the sharp end of the *swadeshi* – broadly, economic nationalism – backlash against foreign goods.

Yet KFC's presence in India is also striking evidence of the growth of the processed food sector. KFC, to Mr Thackeray'a horror, is planning over the next seven years to open 100 outlets in India.

Between August 1991 and July this year, the government approved foreign direct investment totalling Rs2,091 crore in the food processing sector – 6 per cent of all foreign equity approvals. Since 1988-89, exports of processed foods, including processed cereals, have risen fivefold to Rs2,568 crores; exports of processed marine products rose from Rs598 crores in 1988 to Rs3,120 crores by February this year, while exports of processed fruits and vegetables (including dried walnuts) nearly doubled to Rs365 crores, according to government figures.

Alongside KFC, and seemingly next in line for the nationalist tongue of Mr Thackeray, is MacDonald's, which is set to open its first restaurants in India early next year, in Bombay and New Delhi. Pizza Hut, also part of PepsiCo, is already a popular landmark in New Delhi.

Their presence in India has highlighted the deficiencies of – and also provoked controversies within – the agro-processed foods sector. Foremost has been the spotlight cast on India's ceiling on owning farming land. This was introduced by law in the 1950s as a means of redistributing land wealth in an economy in which agriculture still contributes today 35 per cent of gross domestic product and provides 65 per cent of total adult employment.

The land legislation has ensured that agriculture remains a fragmented sector, with the typical holding about 2.5 acres. The land ceiling does not extend to farmland used for the cultivation of plantation crops, such as tea, coffee and rubber.

The responses of individual states to the land laws have varied. Maharashtra, a progressive farming state with a climate suited to the cultivation of a wide variety of crops such as mangoes, rice, sugar-cane and fruits, has allowed the leasing of 1,000-acre plots for large-scale, commercial farming. By contrast, Karnataka, parts of which share a similar climate to its northern neighbour, is more conservative in its epproach to relaxing the ceiling restriction.

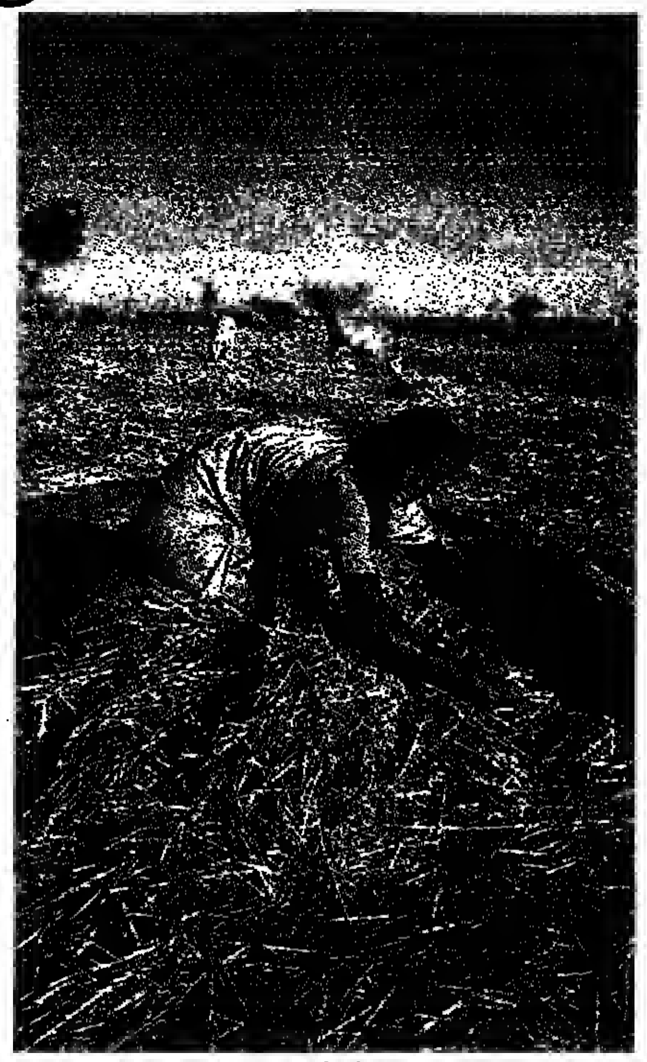
> PepsiCola buys tomatoes from farmers to turn into ketchup for export

Farmers say without large-scale farming of, say, sugar-cane or horticulture, they are unable to mechanise farming and achieve economies of scale. This has deterred investment, especially from the corporate sector, and held back the commercialisation of a sector in an economy that is still 70 per cent agrarian.

In a recent interview with an Indian newspaper, Mr Manmohan Singh, the finance minister, conceded that legal changes were unlikely. "We can find innovative mechanisms to enlarge the size of the operational holdings without affecting land reforms." An increasing number of domestic food processors keen to expand and modernise agricultural practices are therefore pressing the authorities to reclassify fruit, horticulture, potatoes and other vegetables as "plantation crops", thereby bypassing the ceiling.

"These laws are outdated. We have to harvest peas with our hands; abroad, peas are harvested by combine harvesters. We can't even turn a harvester on our small sites. How can we compete in tha global pea market?" asks Gurprit Sandhu, the head of Parai, which is building a $12m plant in the foothills of the Himalayas to make chips for MacDonalds.

The land limitation legislation has frustrated the multinationals, whose response has been to encourage "contract farming". Under this arrangement, a multinational would buy the entire produce of, say, 2,000 local farmers. The entire crop is, in effect, governed by the multinational which also providea bigb-yielding "designer seeds" and chemical pesticides to maximize production. Pepsi, for instance, buys tomatoes from bundreds of small farmers at a fixed price before pulping the fruit into a paste at its Punjab plant and exporting it for use in its ketchup.



Reeping straw: land ownership remains fragmented

The use of "designer" or hybrid seeds has provoked a broader debate ebont the nature of development in the agro-sector. The multinationals' "designer" seeds, chemical fertilisers and pesticides – all generally characteristic of large-scale contract farming – encourage e uniformity of crops which threaten, say environmental critics, to displace thousands of locally cultivated seeds, increase dependency on a select variety of crops and therefore destabilise traditional rural communities. The multinationals say their seeds are cheaper and higher yielding than local varieties and, through more effective, commercial cultivation and marketing, ensure a higher income for farmers and more jobs.

Contract farming, which the government generally supports, at the same time makes the management of a large number of small farms easier. A single client gives a uniform order, ensuring an assured aale, and by removing tbe vagaries of "market forces", also ensures a fixed income for farmers accustomed to "distress sales" after poor harvests.

Some 1,000 small farmers grow peas for Parai, which then supplies the vegetable, frozen, to Hindustan-Lever, another big domestic operator in the processed food market. Similarly, Parai will produce three tonnes of chips an bour from potatoes grown by thousands of small, local farmers in the Himalayas.

But designer seeds epart, contract farming has its problems.

"With a uniform quality of raw material input and end-prodnct there has to be strict quality control over seed design and distribntion, the provision of farm extension services and irrigation," says a World Bank official. "In other words, more effective farm management." And though farmers are contractually bound to sell their prodnce to the "contract farmer", many turn to the market, where their produce fetches higher prices.

Though it is multinationals which have raised the profile of the food processing sector, it is mostly small to medium sized Indian companies which have fuelled its steep export rise, especially in processed fruits, such as mango pulp.

Such companies have benefited from cheap, local raw materials and active promotion from state and central government authorities which have both accorded the industry "a high priority status". Typically, the northern state of Uttar Pradesh gives interest free loans to food processing companies.

"We want to add value to agro-products in India and reap the benefit by exporting," says Ms Nutun Guba Biswas, a deputy secretary at the ministry of food processing industries. Button- and oyster-sbaped mushrooms on European breakfast tables, for instance, increasingly have an Indian origin. "There's been a particularly big response to musbrooms by many medium-sized companies which, by adding value down the line, now export canned mushrooms from India."

The process of "value addition", she says, lies et the beart of so-called "backward linkage", bringing together growers, processors, packers and, finally, wholesalers. Backward linkage is seen as a way of introducing new skills and technologies across this chain and securing – and increasing – jobs in rural areas. Indeed the ministry is encouraging backward linkage through value-added activities as a means of getting round the limitetions of the land ceilings.

But, Ms Biswas says, as food processing takes root and "backward linkage" becomes more establisbed so the requirement for better support servicea and akills will increase. "We need better technical skills, higher quality standards in dealing with off-the-shelf processed prodncts, improved selection methods and better distribution." Some 20 per cent of annual produce is lost through poor storage facilities, transportation and inadeqnate post-harvesting techniques. Achieving gains here, she says, would be a profitable value addition.

CASE STUDY Farm technology transfers

Flowering links with Israel

Diamonds have long been e corner-stone of India's trading relation with Israel. Two-way trade last year totalled $500m. Unpolisbed diamonds eccounted for 30 per cent of Israel'a exports, which amounted to $350m.

Israel is now turning its attention to other sectors as it taps a potentially rich market for its world-beating agro-technology skills and products. In September, e delegation from the south-east Indian state of Orissa, headed by the then chief minister, visited Israel where it signed provisional agreements on drip irrigation and consultancy on water management and food processing, valued at "several millions of dollars", according to Mr Meir Esbet, counsellor at the Israeli embassy in New Delhi.

The Orissa visit followed similar trips by high-ranking delegations from Madhya Pradesh, Karnataka, Andhra Pradesh, Kerala and Gujarat.

Gujarat had led the way 18 months earlier and is today implementing three projects involving Israeli agro-expertise. These cover a feasibility study to improve cotton yields in the saline water and soil of the Kutch region of Gujarat, wbere there is e thriving yarn industry; the cultivetion of early-growing dates enabling the fruit to mature before the monsoon starts in July; and growing tomatoes in Kutch.

"More than half of Israel is semi-arid and so we share many climatic features with India," says Mr Esbet.

It is Israel's expertise in drip-feed irrigation and sprinkler systems, which have been particularly effective in its Negev desert, that may have most impact in India.

In Maharashtra's rich fruit growing district of Nasik, Israeli irrigation systems are being installed on 2-3 acre grape and sugar cane estates as well es 250-acre orchards.

On e small bolding, while the installation of such systems might cost Rs15,000-20,000, the gain can be a donbling in productivity, says Mr Gabriel Levanon, deputy chief executive at the Plastro Irrigations Systems India (PISI), the first Indian-Israeli joint venture.

This project, set up three years ago, employs 130, all Indians bar two, at its Pune, Maharashtra, plant. The agreement also allows for the training of Indians by Israeli experts – an irony, says Mr Levanon, given India'a rich pool of agro-researcb and technicians. "When it comes to agricultural extension services, India has great research bnt little is piped down to the farmers," he says. Farmers, be adds, have responded keenly to modern cultivation methods and "in some cases are more progressive than the state governments". PISI, says Mr Levanon, this year expects sales of $6m.

> The Israeli presence is likely to grow as India aims to export

The Israeli agronomical presence in India is likely to become more broadly-based as New Delhi looks to develop the export-focused food processing sector. "In food processing, India's post-barvesting, frozen foods, transport logistics, methods of fresh produce selection, and food storage fecilities all need developing," says Mr Esbet.

Israel's research on disease resistant seeds and its expertise in improving crop yields, should also appeal to a country which is still 70 per cent agrarian.

Khozem Merchant

■ **West Bengal and privatisation:** by Kunal Bose

Trouble at the Great Eastern hotel

How the unions stopped the French from rescuing a financial loser

The ceuss of foreign investment in India has been dealt two serious blows in the last three months.

First, was the cancellation by Maharesbtra's Hindo nationalist government of the $2.8bn Dabhol Power Company project, promoted by Enroo Developmeot Corporation of the US. The next blow fell in West Bengal, whose Left Front government, which is dominated by the Communist Party of India (Marxist), dropped its plan to hand the management of the Great Eastern Hotel, in Calcutta's principal business district, to a subsidiary of Accor of France under pressure from the trade unions.

The failure to involve Accor in the modernisation and running of the hotel is an embarrassment for Mr Jyotl Basu, the octogenarian chief minister.

He can only hope, says his office, thst investors will accept that there was no way "we could bavs gooe ahesd with the privatisation of Great Eastern in the face of opposition from eboot 85 per cent workers".

Mr Basu capitulated to the workers to prevent privatisation from becoming a burning issue in next year's election. *Mr Sujit Poddar, spokesman* for the government, also emphasised that the Great Eastern privatisation had only beeo "shelved" rather than scrapped.

According to Mr Poddar, "the issue in the case of Great Eastern is not the mobilisation of Rs1bn ($30.3m) for renovating the hotel. The government, which owns the property, could have done it. We don't think thet the present management is competent to handle the job. That's why we wanted to take Accor as the partner." If the Left Front, which has held power for 19 years, wins the next election, the privatisation of Great Eastern will be given priority.

The Great Eastern, opened more than 150 years ago, is one of the city's relics of British rule. Uotil the early 1960s, it was listed among the best-run hotels east of Suez and had been patronised by the ricb and famous. But by 1975, when the state government took it over, it had fallen on hard times. It is now so decrepit that it is avoided by business executives and foreigners.

According to Mr Basu, "the *government should not* be *in* the business of running hotels". Ironically, however, the unions succeeded in scuttliing the Great Eastern's privatisatioo because the government had failed to invite global tenders.

"There was no transparency in the deal with Accor. The Greet Eastern property was undervalued. Ths workers were not offered adequate compensation," says Mr Sougata Roy, Congress (I) trade union leader and member of the state legislative assembly. The Congress(I)-led unions made such a hue and cry over the sale of the Great Eastern that even the CPI(M) affiliated Centre of Indian Trade Unions opposed the move.

In spite of the government's tactical retreat on the Great Eastern, however, it remains committed to involving the private sector in rehabilitating West Bengal's defunct or declining concerns.

Arthur D Little, the US consultant, which has formulated a strategy for West Bengal's industrial development, has advised the state to encourage the federal government to pri*vatise as many public enter*prises as possible.

It says: "While it is apparent that the government cannot privatise all public enterprises and must give due consideration to the impacts on employment, a well-defined, long-term strategy should he adopted by the state government to promote this process so that the government [relinquishes] its ownership role in all but the most sensitive sectors."

The state government, which largely accepts the Arthur D Little report, has, in several cases, sold its holding to private interests, including multinationals.

Webel Telematik, manufacturer of rural antomatic exchanges and electronic teleprinters, began as a joint venture between the West Bengal government and Siemens. The government sold its stake to Siemens when it made a proposal to expand the factory. Ths compeny bes been renamed Siemens Telematik. Similarly, the government had no hesitstion in selling its shares in Webel Telecommunication to Philips – the com*pany has been renamed Philips* Telecommunication.

Mr Bidyut Ganguly, industry minister, says that the government wants to be sure that the defunct and tronhled husinesses do not go to the asset strippers: "Protecting employment is an important consideration. The state already has more than 500.000 registered unemployed people. There are a large number of ailing federal and state undertakings in West Bengal. Even if we want, there will not be private sector takers for all of them," he says.

Mr Ganguly's views on employment protection differ from Arthur D Little's recommendation thet the state "must strive to educate the public that creating new jobs in growing industries is far more desirable than preserving old jobs in dying industries".

Mr Poddar admitted that the government wanted to revive state undertakings such as National Iron & Steel, Britannia Engineering, Shalimar Works and Bharat Jute with the help of private promoters. But the search for private promoters has not yet borne fruit. Mr Ganguly said that the *majority of federal* and state undertakings in West Bengal originally belonged to the private sector and the government stepped in once they became sick. Saving jobs has been the most important consideration for state intervention.

The state, he says, is also active in reviving struggling or defunct private businesses "either by the existing managements or by way of induction of new promoters and wherever necessary with appropriate sacrifices on the part of all concerned including the state government, financial institutions and labour". State help, which includes fiscal concessions and the trimming of the workforce, recently helped two large paper mills and several jute mills to reopen under new management.

■ **BOOKS: Mark Nicholson** reviews India, Economic Development and Social Opportunity, by Jean Dreze and Amartya Sen

Lack of schools is India's Achilles heel

Indie's basic education system is in a parlous state. A few facts: despite doubtful official figures claiming the percentage of youngsters enrolled in primary education is in the high 90s, literacy among Indian men is 64 per cent, women just 39 per cent and the average rate only 50 per cent. Drop-out rates are so high that the average 25 year-old Indian has spent just 2.4 years at school, against five for the average Chinese and more than seven for Sri Lankans.

Moreover, while spending on education rose by more than 10 per cent a year in the 1980s, more than 90 per cent of spending went on teachers' salaries. But the rise in children of school age has exceeded the rise in the number of teachers, so teacher-pupil ratios have worsened.

The absolute number of teachers in primary education actually fell between 1991-93. Indeed, the proportion of education spending disbursed in primary education is lower now than in the 1950s. Add the fact that 60 per cent of Indian primary schools have only one or two teachers, and that teacher absenteeism in Uttar Pradesh is endemic, and a picture emerges of a profound failing of Indian public policy.

This picture is drawn, with exhaustive supporting data, in *India: Economic Development and Social Opportunity*, a new book by Mr Jean Dreze, visiting professor at the Delhi School of Economics, and Mr Amartya Sen, professor of economics at Harvard University.

Beginning with the words of Jawaharlal Nehru, India's first prime minister in 1947, that the country's prime task was to end "poverty and ignorance and disease and inequality of opportunity" the authors detail the country's failure to do so, and issue a strong argument that the success of the new economic reforms will be limited and selective until and unless India's policymakers more successfully address their failings in providing its masses with basic schooling.

The causes of India's failing, the authors argue, lie sometimes in the complexities of the country's caste-stratified culture and tolerance of gender inequalities, such that a country which can produce thousands of world class scientists and, indeed economists, can nevertheless accept the notion that child labour is acceptable among the poorest. They argue that India's elites can politically secure for themselves highly subsidised secondary and tertiary education systems, but that the political weakness of the majority leaves them ill able to organise and lobby for better basic education.

Rhetoric and spending on education policy, they also say, has seldom been matched by practical and implemented policy changes. The "primary challenge" is to make basic education a "more compelling political issue" which, they argue, given the neglect of education by most of the present set of Indian politicians is likely only with greater grass-roots political organisation – itself a function in their view of improved basic education.

Land reform, redress of deeply-rooted gender inequalities and attention to basic healthcare which goes beyond the preoccupation in many states simply with family planning programmes are all cited as similar social goods which India must better address for their own ends, but also as prerequisites for broader "participatory growth", rather than the "unaimed" and selectively beneficial growth they argue India risks achieving.

Their point, made by wide comparison with the Asian "tigers" which India hopes to emulate, and with particular comparative reference to China, is that the former had made much greater strides in provision of basic education and health care well before they began economic deregulation and liberalisation; that "India *today* is far behind where these countries *were* when they initiated their rapid economic expansion". India's literacy rate of 50 per cent is worse than South Korea's in 1960, when it was 71 per cent.

The state, the authors argue, has consistently played a role in developing primary education so that as a matter of policy "the bulk of the young population had the capability to read, write, communicate and interact in a way that is quite essential for modern industrial production". India, meanwhile, has demonstrated "remarkable apathy" towards developing basic education.

The fruits of the growth spurred by India's four-year-old reforms, therefore, risk being more narrowly enjoyed – for instance among skilled software engineers in Bangalore, or

Continued on facing page

■ **Child labour:** by Shiraz Sidhva

Sweated labour of little hands

India has millions of factory children. But promises alone will not help them

The prosperous town of Sivakasi near Madurai in Tamil Nadu is world-famous for its fireworks and quality matches which are sold throughout the world.

The spacious bungalows of the factory barons dominate the town. Their workers, many *of them small children*, live in poor hamlets on the outskirts.

Sivakasi has one of the world's largest concentrations of child workers. Nearly 50,000, of whom 80 per cent are girls, are picked up in buses before sunrise, and taken to factories where they work 14 to 16 hours a day in hazardous conditions.

They are taken home in darkness for a few hours rest before setting out for another toil.

Eight years ago, the Indian government introduced legislation and pledged developmental aid for India's child workers, officially numbered at 20m and unofficially at 55m.

But at Sivakasi nothing has changed.

The legislation has merely surrounded the child labourers with greater secrecy, to ensure that they are not at work whenever government inspectors come to check up. Photographers and journalists are barred from factories, and owners pretend that their employees are all 16 or older.

But even Mr Narasimha Rao, India's prime minister, acknowledges that the problem persists. In an Independence Day address to the nation, he promised to remove children from "hazardous industries". The labour ministry launched a plan to eliminate child labour from these industries and an autonomous body to make sure that it is done. The Rs8.5bn project, unveiled 13 months ago on Mahatma Gandhi's birthday, envisaged the construction over the next five years of nearly 2,000 schools where children would be fed, educated and given vocational training. The ministry also offered education and compensation to their parents, most of whom do not work themselves. The plan would initially benefit 2m of the country's admitted 20m child labourers.

The plan was probably launched to appease growing concern in Germany, the UK and other countries who have threatened to ban imports of Indian carpets and other items made by children.

Labour ministry officials say that many of the 15m children covered by the plan work alongside their parents, and do not need the same protection as those in factories. Dangerous industries employing children include glass, brassware and lock making in Ferozabad, Moradabad and Aligarh in Uttar Pradesh state, the matches and firework plants in Sivakasi, Tamil Nadu, and diamond polishers of Surat (Gujarat), and Jaipur (Rajasthan).

Children are more likely to work for their parents in cottage industries such as weaving and hand-knotting of carpets. But they are also employed in carpet knotting in the Mirzapur and Bhadohi area of Uttar Pradesh.

Mr Kailash Satyarthi, a leading crusader against child labour, welcomes the relief measures as a "shot in the arm" for the worldwide struggle against child exploitation. But he says it will take time for the children to benefit.

The measures are also far too modest, he says. He wants the watch-dog authority on child labour to include bureaucrats and politicians, who have previously ignored the problem. "The money would be squandered away in the name of child rehabilitation," he says. He wants a retired judge to lead the authority which should be "empowered to identify, release and rehabilitate the child sleves and punish employers."

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■ **FINANCIAL TIMES INTERVIEW:** MR MANMOHAN SINGH, FINANCE MINISTER

Battle against the deficit

Mr Singh discusses nearly five years of ministerial efforts to strengthen the Indian economy

FT: According to the IMF, the consolidated public debt bas not fallen greatly since 1991. What have been the impediments to bringing that down?

SINGH: As far as the central government is concerned, the public sector deficit has been brought down. It was about 8.5 per cent of GDP before our government came to office. Last year it was about 6.7 per cent. This year I am confident I will bring it down even further. The budget thet I presented mentioned a figure of 5.5 per cent of our GDP. So far, our revenues are much better than I suggested in my budget. There are inescapable requirements of additional expenditure but I feel confident that the fiscal deficit will not be far out of line with what I predicted in the budget.

I would like to beve moved faster but there are situations which have to be taken into eccount. Import duties accounted for nearly 40 per cent of the central government's revenue, and we have begun a programme of progressive reductions in import duties. When I became finance minister import duties were as high as 200-250 per cent. Now the maximum import duty is 50 per cent and last year a number of items, particularly raw materials and capital goods, [were levied at] between zero and 25 per cent.

I have also reduced our corporation tax rate and our personal tax rates, with an eye on the long term objective of a direct tax structure whicb gives adequate incentive for growth of savings and prodnctive investment. This also in the short term limits my ebility to raise tax revenue.

On the expenditure side, We have gradually reduced the subsidies as a proportion of national income. They havs not gone up as a proportion of GDP and, in e country where farmers are 70 per cent of the population, a 1 per cent subsidy, whether on food or fertilisers, would not be excessive.

Also in the last four years, there has not been a year when I didn't face an election in one part of the country or another. Therefore, in the short term, my room for manoeuvre on the fiscal side was limited. The long term trend is certainly well established, and as the economy grows faster in years to come there will be e positive dividend through the tax reforms in terms of improved tax realisation.

We have today a tax structure which sends the right signals for intelligent savings and investment, and which gives people e greater incentive to pay taxes voluntarily which are legally due: we are broadening the tax base. In years to come you will see more favourable effects of tax reform on tax revenues.

On the expenditure side, we have not been able to pursue privetisation as mnch as I would have liked but we have to create e climate that is favourable to privatisation. We have been gradually reducing the equity of the government in public sector enterprises but we have said that we will never go below 51 per cent. I believe that if yon want to reduce the fiscal deficit in e big way, we need e bolder programme of privatisation but I had to deal with e situation In which employment was not growing fast enough, in which my ability to close loss-making, sick units was limited.

A much bolder programme of privatisation would have aroused the opposition of the organised working classes – and this could have derailed the whole programme. There is no other instance, I think, where such far-reaching structural changes have been made in the framework of a well-functioning democracy.

☐ Is there political consensus about economic reforms and fiscal discipline, and will these policies survive, whatever government takes power after the next elections?

Economic reforms never take place in a political vacuum. The etructural reforms, reduced the role of the public sector, opening up the Indian aconomy, and increased the welcome for foreign investmant – these are reforms which I think are secure today, because whether you have e left-front government in West Bengal or e Janata Dal government in Karnataka or a Shiv-Sena-BJP [Hindn nationalist] combina in Maharashtra or in Gujarat – roughly they are all saying the same thing.

Fiscal reforms are everywhere intensely political because reducing expenditure means burting certain entrenched interests. It is always an uphill task to reduce government expenditure but if we have e strong, stable government next year, regardless of complexion, it will have to deal with this phenomenon. Without e reduction in the fiscal deficit we cannot reduce the real rates of interest to the levels which we need to produce the necessary boost to investment activity. Any government in Delhi would be compelled to edopt e more aggressive stance on the fiscal front.

☐ How concerned are yon abont the recent expressions of "swadeshi" [self-reliance] and economic nationalism?

We are in an election year and people posture a great deal. Some people take refuge in swadeshi to fan economic nationalism but ours is aprogramme of genuine economic nationalism ... in that, India's economic destiny in the final analysis is safe only when India knows how to stand on its own feet, and to compete against everyone else in the world on an equal footing. I've been wanting to make India self-reliant and able ...able to manage without artificial props or concessional aid. Getting foreign investment has never bean considered by Indian planners as inconsistent with the pursuit of self-reliance or genuine swadeshi.

☐ What have the reforms done for the poorest in India?

Without reforms India would have faced the prospect of rampant inflation, reckless growth of unemployment and steep falls in production and growth of agriculture and industry, such as we have never seen In this country. The worst sufferers would have been the poor.

The first year was one of retrenchment. We had to cut government expenditure drastically to get control over the fiscal situation. That hurt employment growth. Additional employment which averaged about 5m jobs in the 1980s fell to about 3m jobs. The second year I think the rate of employment accelerated. In the next two years there were 6m more jobs and the year that has just ended – 1994-95 – the total of additional jobs was 7.2m.

Second, we have been able to put a lot more resources into anti-poverty programmes, creating rural employment programmes and social safety nets. There was e deterioration in real wage rates of agricultural labourers, the poorest section of our society, in the first year but since 1993-94 their real wages have gone up, more than offsetting the reduction in the first two years.

☐ One effect of the reforms is the power it has given to the states to attract and create an environment for investment. Do yon not fear, though, that this might accentuate the difference between the have states and the have-oots?

We have de-licensed industrial activity. States will have to compete for resources and those that can create a more Investment-friendly environment will ettract more investment. States such as Bihar are potentially the richest states. Bihar has land which could be far more fertile than the land in Punjab. Similarly, Bihar in terms of natural resources is far richer than Punjab. If the Bihar government is really aroused and public opinion supported edoption of an aggressively pro-development path there is no reason why Bihar should not grow faster. Competition sbould arouse the letent creativity in India, which has not been allowed to express itself in the past.

☐ Has enough been done to reform tbe capital markets, the financial markets, and the banking markets?

The reform of capital markets is completed with the legislation on depositaries having been put in place. Now the legislation is there, we have to bring these depositaries into the system, and move to paperless trading. The Securities and Exchange Board has to be given adequate powers. A process of learning by doing now needs to take place. In a stock exchange such as Bombay's it takes time for new practices and new attitudes to take root. In the banking sector we have established prudential norms, entry of private sector banks, reduced importance of compulsory lending at below market rates, and substantial interest rate deregulation.

One area where I sbould have moved faster was in insurance reform. An insurance regulatory euthority will be set up, but the legislative calendar does not suggest that we can go beyond that.

☐ How would you assess the corporate response to yonr reforms? Do yoo feel Indian industrialists bave made tbe most of what yon've done?

They have begun well. Wheo we began this process there was e largescale fear tbat import liberalisetion, and removal of quantitative import restrictions would lead to deindustrialisation of India. The prophets of doom and gloom have fortunately been proved wrong. Our capital goods industry is booming; also our imports of capital goods are Increesing fast; and our imports of capital goods are proving e supplement rather than a substitute.

We have to create an environment where our industrialists and our entrepreneurs will shed this feeling of inferiority, that somehow we are condemned to making second rate types of goods. India is willing to accept the challenge of competition. That the world should compete in India has today much greater ecceptability.

Some still worry ebout the consequences, but they are a diminishing minority. Competition helps the strong, but also hurts the lazy and those that persist in the status quo.

☐ With growth as it is, india is facing onmerous Infrastructural blockages. Do you think infrastructural investment is coming in sufficiently fast?

In infrastructure, we are not investing as mucb as we should. We need to raise our savings rate. We need to invest more, we need to invest about 10 per cent of our GDP in basic pbysical infrastructure. We are investing today about 6-6.5 per cent so, in years to come, we should do more. But what is happening in india, is putting pressure on infrastructure. Now thet we are pressing increasingly against cepacity constraints the profitability of Investment in tbese sectors will improve.

Some of the improvements in infrastructure will be dramatic. Look at the opening of the telecoms sector and the Impressive private sector response to the new opening of the basic telecoms services. We can expect in years to come the same to be repeated. There have been some hiccups. In the power sector, if we had gone through the competitive bidding route some of the problems might not bave arisen. But most people agree that we need transparent. competitive bidding ... In what we propose to do with our Infrastructure. We will see a lot more private investment, both domestic and foreign, in the infrastructure.

☐ Until this Investment comes, are yon worried thet infrastructural problems will pusb up inflation?

We are now hitting against capacity constraints bot there is sufficient slack In the system to manage with an inflation rate of about 7 per cent this year and, as far as aggregate inflation is concerned. food prices are the kingpin of the price structure. in the last three or four years our government, in order to give a better deal to tbe farmers, has brought food prices and agricultural prices closer to international prices.

That has put pressure on the inflation rate. But that process is now roughly completed and, if agricultural prices remain stable, even these infrastructural bottlenecks should not lead to an increase in inflation. I feel comfortable tbat we should work towards an inflation rate below 5 per cent – our monetary and other policies should be in that direction.

☐ Looking back over almost five years of reforms, which would you say have been the greatest achievements?

Our achievements in terms of bringing down the fiscal deficit are not as good as I bad intended. But for the rest it is more than I had expected or had intended. When I became finance minister I said to our people that India was in such great trouble that for the next three years we should expect blood, sweat and tears. But I was surprised that structural adjustment and reforms proved so successful and at so little cost in to social cohesion. We turned arouod the economy mucb faster than I had envisaged. Also we bave beeo able to complete 75-80 per cent of the reform agenda promised in 1991. As a minority government, we had to face the terrible events of Ayodhya, the Bombay blasts and all tbose dislocations. What has been achieved in the last four years is not a small achievement.

But above all, tbe most important achievement is cbanging the mindset of tbe people, how the people of India now look at their economic problems. Today they believe that India's destiny lies in working with the rest of the world economy, in a system that is less ridden by bureaucracy. The broad national consensus that exists about economic reform is perhaps the greatest contribution that our government's prime minister Mr Narasimha Rao has made in the last four years.

Manmohan Singh: establishing broad national support for economic reform has been the greatest achievement

The Achilles heel is education

Continued from facing page

similar pockets of expertise – than has been the experience of Asian "tigers". "It may be much less glamorous to make simple pocket knives and reliable alarm clocks than to design state-of-the-art computer programmes," write the authors, but "it is in the making of these unglamorous products, the market for which is very large across the world, that a high level of basic education is a major asset for China – and for many other high growth economies of east and south-east Asia".

As a compendium of data on India's education system and, to a lesser extent its record on eliminating basic health problems and gender inequality, the book is without recent peer. Its comparative data makes gloomy reading from an Indian perspective, but for the singular example of the southern state of Kerala, where the authors argue that enlightened policymaking and higher levels of popular political organisation have achieved remarkable social and educational results.

Gloomier still, though, is the thought that however powerful the authors' case, the core issue of their book is unlikely to be high among the politicians' most "compelling" issues come the imminent election campaign.

India: Economic Development and Social Opportunity is published by OUP India: 292pp; Rs395

Children in Delhi: India's hope

■ **The war in Kashmir:** by Shiraz Sidhva

India tries to divide and rule

A former folk singer who has switched sides is helping to combat the enemies of India

In a bazaar in downtown Srinagar, the summer capital of the Indian state of Jammu and Kashmir, women block traffic crying and beating their breasts.

Indian security forces have arrested two boys the night before. Sobbing hysterically, their mothers swear they are not militants fighting the government. They blame "Kukka Parrey's men" for the arrests.

Everyone in the market tells the same story. "Kukka Parrey's men came last night, and helped the army take away our boys," they say. "No, we didn't see him, but we know they were his men."

In Watlar, a small village that has sprung up by the highway an hour's drive from Srinagar, some 500 are squatting in the road, men on one side, women on the other. Soldiers in black bandanas lounge in the late morning sun, as others comb the empty village.

This is an army crackdown, a cordon and search operation that is a familiar occurrence in Kashmir, where separatists have been waging war against Indian security forces since 1989. The soldiers tell us not to stop or take pictures.

When we return four hours later, the crackdown is over, and everybody still says "Kukka Parrey did it". Who is Kukka Parrey, and why does all Kashmir quake when his name is mentioned?

He is an unlikely ally of the Indian government's campaign against Pakistan-backed terrorism in the valley. "Kukka Parrey is only a symbol," says a senior official in Srinagar. "There are others like him, Kashmiri militants who have switched sides and are loyal to the Indian government just as they were once loyal to the ISI" (Pakistan's Inter-Services Intelligence).

We travel to Kukka Parrey's home at Hajin, a small town in Kashmir's Badgam district. There is a noticeable lack of fear here, unlike elsewhere in Kashmir. For the first time since the Moslem uprising started, the Indian flag flies unguarded in the valley. Beyond the flag, a sandbag fortification, a common sight in Kashmir, is unmanned.

Soldiers play cards under a tree. "Kukka Parrey protects us. We have nothing to fear," says a school master. Everywhere in Hajin, people say they love him. As we wait for Kukka Parrey to arrive, we are offered boiled eggs and tea served in mugs inscribed with little red hearts, and "Don't forget to add the love."

Home guard: one of Kukka Parrey's armed followers in his home town of Hajin

The portly man who swaggers into the room and reaches for his hookah is an improbable bogeyman, and an even more unlikely messiah. Kukka Parrey, alias Jamshyd Shirazi, used to be a folk singer before he took up arms to become Hajin's Robin Hood, robbing the rich to feed its poor.

He joined forces with the men in black bandanas, who belong to the army's new crack commando force, the Rashtriya Rifles, to target the elements accused by the Indian government of working for Pakistan.

In February, he broke with the Ikhwan-ul Muslimeen (literally Muslim brotherhood) to form the Ikhwan-ul Muslimoon and fight the pro-Pakistani group, the Hizb-ul-Mujahideen. "Now my first love is the gun, though I still sing," he says fingering the trigger of a sub-machine gun. "We build bridges when they are washed away, we get daughters of poor men married, and we fight so that the people of Kashmir can eventually get their freedom," he says.

Kukka Parrey does not admit helping the Indian government or the army. He also denies that his men confiscate Maruti Suzuki cars being driven on the highway, or lead soldiers to houses sheltering militants during an army crackdown.

But where does he obtain the wealth that he distributes to his neighbours when he holds court in Hajin every Thursday? "The rich give me their wealth with love," he says. "As a child, I loved giving things to people who needed them, and I will continue to do the same till I die," he swears.

As we leave Hajin, the soldiers relaxing under a tree say that they are glad that Kukka Parrey has joined forces

Kukka Parrey: combating the 'criminal elements' among the Kashmiri militants

with them. "If only all Kashmiris would cooperate with us, all their troubles would be over too," they say.

When Kashmir's modern history is written, 1995 will be remembered as the year of Kukka Parrey and as the year when the war entered a new, more deadly phase.

The government thinks that by pitting Kashmiri militants against each other, it can quell the uprising in Kashmir. The people who earlier supported the militants and called them "freedom fighters" are certaintly fed up with the criminal elements among the militants who extort, rape and kidnap Kashmiris and abuse human rights as blatantly as the security forces are alleged to do.

But the government has failed to win the people over and the insurgents have escalated the conflict significantly by taking foreign hostages. Four of them are still missing since being seized on July 4 by the Al Faran gang, thought to be linked with the Harkat-ul-Ansar, a radical Pakistani group.

Neither India nor Pakistan nor the US, Britain or Germany, whose nationals have been held to ransom, have been able to secure their release. The world has watched with dismay as the proxy war between India and Pakistan has turned the beautiful Kashmir valley into a killing ground.

Relations between the two countries, strained at the best of times, are currently at a very low ebb, with both sides accusing each other in international forums but doing little to initiate a dialogue.

The vale of Kashmir, which along with Jammn and Ladakh makes up the Indian state of Jammu and Kashmir, is at the heart of the United Nations' longest-standing dispute. When partition divided India and Pakistan in 1947, this northern state, which remained unaffected by British rule in the sub-continent, was divided between the two countries without regard to the Kashmiris' demand for their own independence.

India and Pakistan accepted a United Nations proposal that Kashmir's status would be decided by a plebiscite of its own people to choose between India and Pakistan. Two wars have been fought over Kashmir, and nearly 30,000 people killed since 1989, when Kashmiris took to the gun for the first time in 40 years to press their demand for a plebiscite.

The Jammu and Kashmir Liberation Front, which started the current bloody phase, has always stood for Kashmiri nationalism. Its concept of a free Kashmir includes parts controlled by both India and Pakistan, as well as some areas in the original state's extreme north which Pakistan has effectively ceded to China. Ironically, though, the third option – of an independent Kashmir – does not seem to be on offer.

"Wa are caught between the guns of Indie and Pakistan, and no force on earth can help us," says a shopkeeper in Srinagar's trendy Dalgate area. The violence continues unabated even as the Indian government prepares to hold elections in the state after six years of central rule.

But even elections are unlikely to resolve this 40-year dispute. "Dialogue between India, Pakistan, and the people of Kashmir is the only answer," says Mr Abdul Ghani Lone, a senior Kashmiri leader. "But who can convince India and Pakistan to talk?"

■ **Private airlines:** by Shiraz Sidhva

Up, up and away

Passengers are starting to benefit from four years of competition on domestic flights

Four years after internal flights were opened to private competitioo, breaking tha monopoly of the state-owned Indian Airlines, the industry is struggling to make money.

The government's insistence that the 10 private operators should fly on uneconomical routes, the high cost of eviation fuel, the poor infrastructure and the number of empty seats have made the industry less profitable than when competition started in 1992.

Yet the glut of seats has not deterred at least 20 more companies from considering entering the market.

"The challenge will really begin onca airlines start expanding and competing," says Mr Naresh Goyal, chairman of Jet Airways and a non-resident Indian who owns the airline with Gulf Air and Kuwait Airways.

Though domestic flights increased by 12 per cent last year, three times faster than in 1993, airlines filled only 28,000 seats a day out of a possible 50,000. Indian Airlines, which can transport 30,000 passengers a day, carried an average of only 23,000.

"India is a market of the future," says Mr Werner Heesen, commercial vice-president of ModiLuft, a private outfit operated with support from Lufthansa, the German airline, and owned by Mr Satish Kumar Modi, an Indian businessman.

Lufthansa has the option to take a 40 per cent stake in ModiLuft, (the maximum foreign share in a domestic Indian airline) but is hesitant. "There are bottlenecks to be cleared before the industry takes off," says Mr Heesen, who is on secondment from Lufthansa.

ModiLuft made profits of more than Rs100m, while profits at Jet Airways, the other leading private operator, were Rs80m. However, Damania Airlines, which also targeted the top end of the market, was forced to sell out to another company. "Eighty-five per cent of our passengers are corporate travellers, and they are looking for a quality carrier, so our airline is aimed at a totally different segment from the other airlines," says Mr Heesen.

Jet Airways, too, is after executive travellars and wealthiar tonrists who together account for e quarter of its business. "We do not believe in cutting corners to ensure that we are a world-class airline," says Mr Goyal, chairman.

Jet's seven new-generation Boeing 737s receive technical support from Malaysia Airlines, KLM, and its equity owners Gulf Air and Kuwait Airways. Its customer services are assisted by British Airwaya. However, flying on ModiLuft and Jet is only slightly dearer than on Indian Airlines.

In the last three years, fares

> Indian Airlines has been taught not to take its customers for granted

have soared by more than 40 per cent and next January dollar fares are due to rise by 25 per cent. However, airlines still insist that they their costs are punishingly high.

Aviation fuel in India, at $1.60 a litre, is dollar dearer than the international price – "and fuel accounts for 30 per cent of our costs," says Mr Heesen.

Both the private companies and Indian Airlines have called for an end to the surcharge imposed on already high fuel prices during the Gulf War.

They also face high airport charges, such as landing and handling fees. The airports are managed by the the Airports Authority of India. "Unless the airport authorities are privatised, and large investments made in infrastructure, growth for the industry will be impossible," says Mr Heesen.

Airports lack adequate roads and parking space and their air traffic control facilities cannot handle all existing flights let alone cope with more.

A private airline director, who did not want to be named, went further, saying that if the government did not intervene to alleviate costs, the industry was "on its way to becoming sick".

Private airlines have to operate on uncommercial routes in ratio to their profitable routes between the main urban centres. This was forced on them to protect Indian Airlines, which traditionally operates these loss-making routes. "This is uneconomical, and leaves low profit margins," says Mr Sivanandan. "The only option for private airlines is to raise fares."

In terms of numbers, Indian Airlines towers over all its competitors. After the shock of losing nearly a fifth of its passengers on its main routes, it appears to have changed its general outlook, while streamlining its operations and working hard to solve staff disputes after it lost pilots to the better paid private airlines).

The changes worked. After two years of heavy losses, Indian Airlines has made a small profit of Rs362.4m. Once known as "the airline they loved to hate", it was recently named "most preferred airline" in a market survey.

ModiLuft and Jet Airways came out on top in other polls, which also highlighted punctuality and inflight service. But Indian Airlines boasts the great advantage of using wide-bodied aircraft such as the Airbus 300s and 320s on most main routes.

"Competition has done wonders to Indian Airlines," says one of its former officers who now works for a private operator. "Every time we introduce a new scheme to attract passengers, Indian Airlines follows suit," he says.

"Since our concerns go beyond profit-making, we offer attractive fares for youth, tourists and the elderly, which private airlines will find hard to do, because their networks are so limited," says Indian Airlines' puhlic relations manager. "You can't beat an airline that offers 53 domestic destinations and 14 foreign destinations, with almost as many aircraft to match."

It was the tough competition, though, that taught Indian Airlines not to take its passengers for granted.

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FINANCIAL TIMES
COMPANIES & MARKETS
Friday November 17 1995

IN BRIEF

Northwest puts up poison pill defence

Northwest Airlines has adopted a poison pill plan in an attempt to prevent KLM – the Dutch airline which has 21.5 per cent of Northwest's voting rights – or any other predator taking control of the group. The company said further consolidation of the airline industry was likely. Page 16

Prudential set to reshape divisions
Prudential Insurance of America is reorganising its business to capitalise on the trend towards greater retirement planning in the US. Restructuring at the mutual insurance group over the next 18 months is expected to cut annual costs by $600m. Page 19; SBC considers US expansion, Page 16

Booming steel market powers Thyssen
Thyssen, Germany's biggest steelmaker, reported a marked improvement in net profits, driven mainly by a booming steel market, and announced a DM10 dividend, higher than most analysts' expectations. Page 16

Kmart slips into the red
Kmart, the struggling discount retailer, made a net loss of $118m in the three months to October 25, excluding a $48m one-off gain, as savage price cutting slashed the group's gross margin. Page 19

Agfa buys Hoechst print unit
Agfa-Gevaert, the photographic subsidiary of chemical group Bayer, is to take over the printing plates business of German chemical company Hoechst for DM700m ($499m), in a move aimed at strengthening the subsidiary before its possible divestment. Page 16

Electricity distributor sold for A$2.15bn
The state of Victoria has agreed the sale of Powercor, which distributes electricity to western Victoria, to PacifiCorp, the Portland, Oregon-based utility, for A$2.15bn (US$1.6bn). Page 20

National Australia Bank up 15.3%
National Australia Bank, the largest and the strongest of Australia's four big banks, has reported an increase in profits in the year to the end of September. Profits after tax and abnormal items were A$1.97bn (US$1.45bn), a rise of 15.3 per cent. Page 20

L&G fund shake-up to benefit investors
Shareholders and policyholders are to benefit from the restructuring of the long-term UK fund at Legal & General, one of the UK's largest life assurance groups. The biggest immediate payment will be a £160m ($252m) special bonus to 1.4m policyholders next year. Page 22

PowerGen passes rival with 13% rise
PowerGen has outpaced its larger rival, National Power, by reporting stronger profit and dividend growth and agreeing the terms of a £450m ($711m) disposal of two coal-fired power stations to Hanson's Eastern Group subsidiary. Page 22

Rising paper prices help lift Scapa
Scapa Group, the industrial materials company, said rising paper prices and buoyant demand for papermaking equipment had fuelled a 30 per cent increase in first-half profits, from £22m to £27.7m ($43.7m) in the six months to September. Page 22

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Asko	890	+	35
Beiersdorf	983	+	18
Kali & Salz	161	+	11
Falls			
Aachen Mch Rg	890	-	20
Bank Berlin	365	-	11.5
Goldschmidt	560	-	15
NEW YORK ($)			
Rises			
Boeing	75¼	+	1¼
McDonnell Dgls	90½	+	3⅝
Pctr Gmble	87¼	+	1
3M	62⅞	+	1½
Falls			
Intel	64⅞	-	⅞
Microsoft	90¾	-	3¼
LONDON (Pence)			
Rises			
Cowie Grp	292	+	18
Kelsey Inds	560	+	35
Prudential	415	+	20
Utd News	570	+	31
Falls			
Euro Disney	160	-	25
Lmth & Brcht	314	-	44
TORONTO (C$)			
Rises			
[illegible] Tech	11⅜	+	1¼
[illegible] Tech	20⅝	+	2⅛
Ranotec Comm	11½	+	1½
Falls			
Biochem Pharm	47⅞	-	2¼
Goldcorp Cls	13⅛	-	¼
Rannac Pete	10¼	-	⅛

PARIS (FFr)			
Rises			
AGF	169	+	10.1
Accor	640	+	22
Banc Comp	590	+	41
Cred Lyon	305.6	+	27.8
Imetal	590	+	30
Falls			
LVMH	938	-	18
TOKYO (Yen)			
Rises			
Chuo Tst	772	+	35
Hatori Seiko	788	+	31
Kyowa Hakko	959	+	25
Mitsui Tst	899	+	28
Tekken Corp	730	+	25
Falls			
JEOL	795	-	15
HONG KONG (HK$)			
Rises			
Lucky Man Prp	4.95	+	0.45
Moulin Intl	1.82	+	0.11
Playmate Tys	1.38	+	0.10
Falls			
China Foods	1.58	-	0.26
Cons Elec Pwr	11.8	-	1.4
Shun Tak Hld	5.4	-	0.4
BANGKOK (Baht)			
Rises			
Juldis Dev	62.5	+	5.5
Khoom Khao	34.5	+	3.0
Thai Iron Wk	70.0	+	5.0
Falls			
Far East	160.0	-	16.0
Int Cosmetics	330.0	-	30.0
Samaggi Ins	101.0	-	11.0

New York and Toronto prices at 12.30pm.

German shipbuilder warns of loss

Bremer Vulkan appoints interim chairman as deficit mounts at machine building unit

By Judy Dempsey in Berlin

Bremer Vulkan, the troubled German shipbuilder, yesterday appointed an interim chairman to replace Mr Friedrich Hennemann while warning of losses for 1995 of about DM200m ($143.8m).

The new chairman, Mr Günter Smidt, is a member of the Bremer Vulkan board. The move was seen as an attempt to assuage market concern about the company's performance.

Shares in Bremer Vulkan, one of Germany's largest shipbuilders in the country, fell in early trading but rallied and ended the day at DM42.50, a gain of DM2.40. Earlier this year, its shares had stood at a high of DM97.20.

The losses will be concentrated on Dörries Scharmann, the machine building division of Bremer Vulkan which Mr Hennemann acquired in the late 1980s.

The company said Bremer Vulkan would forego up to DM170m of its own claims on Dörries Scharmann because the division's losses had absorbed more than one half of its equity capital.

Dörries Scharmann generated operating profits of DM1.5m on sales of DM441m last year but it reported losses for the first half of this year.

Mr Wolfgang Biedermann, chairman of Dörries Scharmann, yesterday said there had been problems integrating the company with Bremer Vulkan, a view shared by analysts. The problems in Dörries Scharmann may represent the tip of the iceberg for the group as a whole.

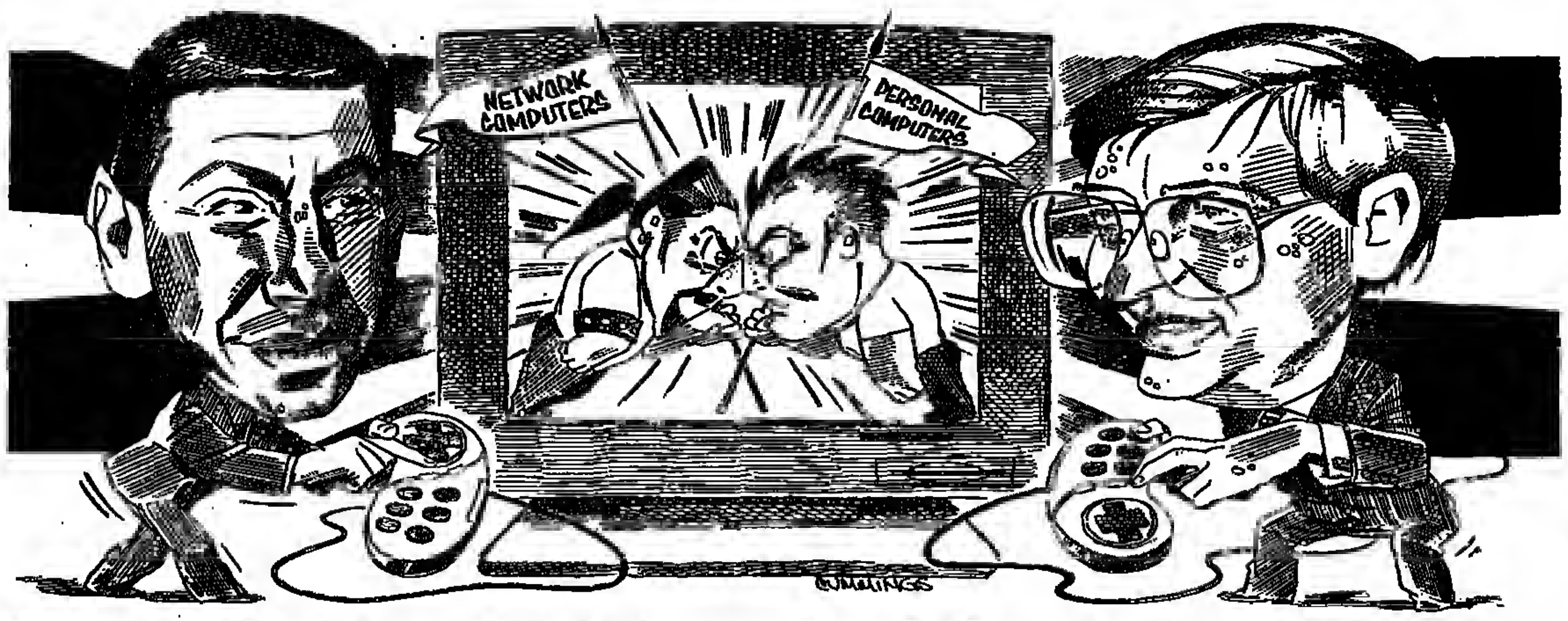
"We do not know the state of the books," said a banker involved in the shipbuilding industry. He added that the group might record even higher losses for this year once the books were scrutinised and a new management was installed.

In the first half of this year, Bremer Vulkan had after-tax losses of DM27m on sales of DM2.3bn compared with net losses of DM3.8m on sales of DM2.7bn in the same period last year. By September, its outstanding debts totalled DM1bn.

It was then that the company sought additional credits of DM300m to finance investments. Commerzbank, one of the company's house banks, said at the time there were few grounds for concern about the request for fresh credit.

But Dresdner Bank, one of its other house banks, in a leaked letter sent to the management board this month, allegedly said it would not be prepared to extend further credit until the group offered adequate capital.

Louise Kehoe and Paul Taylor examine the two camps in the network computing debate



Battle of the boxes: Larry Ellison chairman of Oracle (left) sees the demise of the PC while Bill Gates, Microsoft chairman, calls Ellison's prediction another misconceived vision

Industry divides over predicted death of the PC

The concept of a $500 "network computer" that might become an alternative to personal computers costing four times as much is dismissed as a "stupid idea" that will "never happen", by Mr Bill Gates, chairman of Microsoft.

The potential challenge from network computers or "Internet appliances" was a topic of debate as more than 200,000 representatives of the PC industry met in Las Vegas this week for the Comdex trada show. However, no such products were on display.

Mr Gates took a shot at the leading proponent of network compnters, Mr Larry Ellison, chairman and chief executive of Oracle, the second largest software company in the world after Microsoft, saying his prediction of network computers and the demise of the PC was the latest in a string of misconceived "visions that Larry has been coming up with over the past five years".

His remarks highlight the personal rivalry between the two software leaders over the future of computing – a debate which has polarised the industry.

"A PC is a ridiculous device; the idea is so complicated and expensive," said Mr Ellison. "My mother wants to use the computer to send e-mail to her grandchildren. She doesn't want to deal with all the complexities of a personal computer for that.

"We need to make it so inexpensive and easy to use that nearly everyone will have a computer ... like a TV set, or a phone."

Oracle's network computer will be unveiled in February and go on sale next summer. Some technical features includa 4 megabytes of D-Ram for temporary data storage, 4 megabytes of "flash" memory to hold programs and a $50 microprocessor.

The software company is believed to be seeking marketing alliances with telephone, cable TV and online services companies. "The technology is coming," said Mr Ellison.

Mr Gates said the network computer was a figment of the imaginations of those in the industry who would like to promote sales of large-scale computers and software.

Mr Ellison's plans to launch a low-cost network computer have touched a raw nerve in the PC industry. Mr Gates protested: "Write that it is going to be a big success ... write that it will kill off the PC. In six months let's see what happens."

Mr Lou Gerstner, chairman and chief executive of IBM, may have pinpointed the real issue in his keynote speech to the conference. He acknowledged that PC users are tired of having to replace their PCs every year or so "or have that sinking feeling they've fallen behind the times".

Rapid advances in semiconductor technology mean a PC purchased today is faster than one bought for the same price just 12 months ago.

Upgrading PCs with faster microprocessors, more memory, higher capacity disk drives and add-on circuit boards "is a romantic concept that only a very small percentage of customers really pursue. It sounds like a good idea, but in reality it is not worth it," said Mr Michael Dell, chief executive of Dell Compnter.

In contrast, the network computer – a machine that draws most of its processing power from large remote computers via the Internet or a corporate network – might last longer and cost less to purchase, proponents of the concept maintain.

Network computer users would also not have to worry about which operating system program to choose, or buying the latest application programs, Mr Gerstner said.

He said IBM was developing "inexpensive network appliances" that it would begin shipping early next year.

There are doubts over the cost and capabilities of such machines. Only when broadband, high-speed networks becoma widely available – perhaps in five years – could such a terminal begin to substitute a PC, said Mr David House, senior vice-president of Intel, the leading supplier of microprocessors to the PC industry.

"It is a 'back to the future' concept," said Mr Dell. "Would you feel comfortable storing your private files in some central computer?"

Although the prospect of a low capital cost network computer may be attractive, users of such devices would probably have to pay fees to use oetwork services. It might be cheaper to rent a PC, Mr Dell suggested.

Another big question about $500 network computers is whether computer manufacturers could make a profit on them. Gross profit margins on $2,000 PCs are already thin, around 20 per cent, and costs of manufacturing and distribution would change little.

A more promising approach may be the development of special purpose devices for electronic shopping, sending e-mail or tapping into a corporate database.

Many in the industry believe that advances in wireless data communications technology will enable a new generation of hand-held "personal digital assistants" to serve such purposes.

Starbucks stirs up coffee market

By Christopher Parkes in Los Angeles

Net profits at Starbncks, the coffee shop chain which has steamed to success despite America'a cooling appetite for caffeine, soared 155 per cent to $26m in the year to October 1.

The Seattle-based group, which has prospered by making "speciality" coffee a fashion item in its 675 shops, and is now opening stores at a rate of more than 250 a year, yesterday reported a 63 per cent increase in annual sales to $465m and announced plans for a Tokyo launch next year.

The last quarter of the year under review saw the gronp open coffee shops in Baltimore, Maryland and Austin, Texas.

Other recent ventures include deals to apply the Starhncks brand to a luxury ice cream made by Dreyers, and a prodnct development with PepsiCo.

An agreement with United Airlines, signed last week, means 75m passengers a year will get to taste the upstart brand in a market dominated hy long-established labels such as Maxwell House and Folger's.

Analysts, who note slowing sales on a store-by-store basis, say long-term snccess depends on establishing the Starbncks name, its speciality statns and its relatively high prices in snpermarkets. Yesterday's figures showed sales per shop – comparing ontlets which had been open for at least a year – increased 10 per cent.

For the time being, however, the eight-year-old compaoy appears content to pursne tha rapid expansion strategy which now attracts 3m customers a year into cool-dude shops popnlated by young professionals, listening to jazz.

The trend has been avidly fuelled in California, where Starbucks coffee shops increasingly serve a socio-economic gronp, once known as yuppies.

The company's policy of focusing on specialities – such as the iced Frappacino confection of Italian extraction which currently accounts for 10 per cent of sales – has helped it run counter to the long-term slide in US coffee consumption.

The proportion of Americans who drink coffee has dropped from 62 per cent to 47 per cent in the past 20 years, with an accelerated slide of seven percentage points since 1993. The average drinker's intake has also fallen in the last two years from 1.9 to 1.7 cups a day.

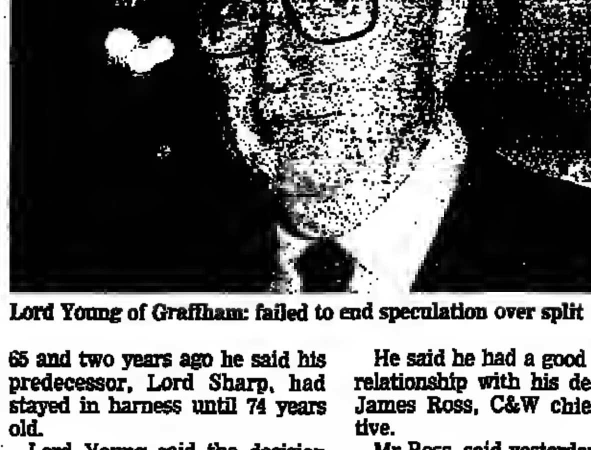
Lord Young sets date to step down at Cable and Wireless

By Alan Cane

Lord Young of Graffham, chairman of Cable and Wireless since 1991, said yesterday he intended to retire from his role at tha head of tha UK-based telecommunications group in February 1997.

His announcement failed to end speculation that tha C&W board is deeply divided over the group's future management and that a power struggle hetween Lord Young and his depnty, Mr James Ross, the chief executive, is likely to continue.

Differences between the two, which have been mounting over recent months and thay are thought to believe they will find it difficult to work together for another 15 months.



Lord Young of Graffham: failed to end speculation over split

Lord Young said: "I shall stand down from my position as executive chairman on my 65th birthday on February 27 1997. I am announcing this now in order to end the recent ill-informed and destabilising comment, and to put the record straight".

The comment he referred to was suggestions that he had been put under pressure to resign by the company's non-executive directors, led by Mr Winfried Bischoff, worried by investor discontent.

There is no statutory requirement for Lord Young to retire at 65 and two years ago he said his predecessor, Lord Sharp, had stayed in harness until 74 years old.

Lord Young said the decision to announce the date of his going had been taken by him alone and that neither he, nor any member of the board, had received complaints from investors.

The non-execntive directors would, in the next few months, set about choosing a successor, he said, adding vehemently that the new chairman: "definitely would not come from within the company".

He said he had a good working relationship with his depnty Mr James Ross, C&W chief executive.

Mr Ross, said yesterday he had made it clear to the board that he had no ambitions to become chairman. He denied suggestions that the relationship between himself and Lord Young had deteriorated over tha past few months. There were disagreements from time to time, he said, but it was an open and positive relationship.

Lex, Page 14;
Results, Page 22

EUROPEAN NEWS DIGEST

Cimpor earnings slip at nine months

Cimpor, Portugal's biggest cement producer, has reported a 34 per cent drop in net consolidated profits from Es22.9bn to Es15.1bn ($102.6m) for the first nine months. The slide was caused by a sharp reduction in extraordinary gains from Es34.6bn to Es800m. Operating profits rose 48 per cent to Es24.3bn and sales increased 22 per cent to Es88.2bn. Cement sales grew 5 per cent in Portugal and 17.8 per cent at its production plant in Galiza in northern Spain. Cimpor accounts for about 60 per cent of Portuguese cement sales, where public works construction is enjoying a boom, mainly caused by European Union structural funds. *Peter Wise, Lisbon*

Agrobanka continues funds push

Agrobanka, the fifth largest Czech bank, has stepped up its aggressive push into fund management by approaching Creditanstalt, the Austrian bank, with an offer to buy its Czech investment management business. Agrobanka wants to buy Creditanstalt Investment Co, which runs two medium-sized investment privatisation funds that own stakes in privatised companies. Creditanstalt, which is understood to be considering the offer, owns 80 per cent of the investment company with five Prague-based executives owning the rest. Neither party would disclose the offer's value.

However, as part of its initial response, Creditanstalt is thought to be seeking a commitment that Agrobanka would make an additional offer to buy out foreign investors in one of the investment funds listed on the London Stock Exchange. Foreign investors own up to 14 per cent of that fund, which has a net asset value of more than $100m. Creditanstalt is understood to be concerned that those investors should have an opportunity to sell their shares in the event of a change of fund manager. *Vincent Boland, Prague*

Richter Gedeon stake placed

Hungary has placed a 13.8 per cent stake in Richter Gedeon, its leading pharmaceuticals manufacturer, with international investors. The sale is part of a $48.6m combined offering for 18.7 per cent of the company. Schroders and Creditanstalt Securities Budapest were the global co-ordinators. The offering was for 13.8 per cent of total share capital, and was priced at $14.75 per GDS, near the bottom of the $14.50-$16 price range. An international and domestic offering for 33 per cent of the company 14 months ago was priced at $12.30.

People close to the deal said that, in spite of difficult market conditions, the offer was significantly oversubscribed and placed with high quality investors. About two-thirds had been placed with UK-based investors with a further 20 per cent going to the US. The company forecasts post-tax profits of $58m on sales of $212m in 1995. *Virginia Marsh, Budapest*

Ares Serono starts work on plant

Ares Serono, the Swiss pharmaceuticals group, this week starts construction of a biotechnology plant in Corsier-sur-Vevey, Switzerland. The SFr275m ($252.4m) investment will bolster the company's position as the leading provider of infertility treatments. However, the project's estimated costs greatly exceed earlier forecasts. Mr Ernesto Bertarelli, deputy chief executive, said: "We have decided to add a purification unit to meet both our manufacturing requirements and the latest US Food & Drug Administration stringent regulations."

The project is part of a $400m investment to convert plants from conventional extracting techniques to biotech production. Most production presently relies on collected urines, which requires costly logistics. *Thierry Meyer, London*

Booming steel market behind advance at Thyssen

By Michael Lindemann in Bonn

Thyssen, Germany's biggest steelmaker, yesterday reported a marked improvement in net profits, driven mainly by a booming steel market, and announced a DM10 dividend, higher than most analysts' expectations.

Net profits for the year to September 30 rose to DM775m ($552.6m), from DM90m last year, while turnover rose 12 per cent to DM39.1bn. The Düsseldorf-based group last paid a DM6 dividend two years ago. The shares rose DM2.60 to DM256.35 on the news.

The company warned the strong growth in the first half had slowed, but said it was confident it would report another "good result" in the coming year.

Thyssen recently announced short-time working for a small number of its steel workers and warned that the steel boom – which had lasted almost two years – had peaked. It remained unclear whether prices would fall or not. "Prices are still stable but the volume has fallen," the company said.

The construction sector in Germany is also likely to "give way significantly", the company said, a fact which is likely to influence Thyssen's steel business, and also Thyssen Handelsunion, the trade and services division.

The strong rise in profits would be used to improve the company's equity ratio (equity as a percentage of total balance sheet) which had fallen to 18 per cent, Thyssen said.

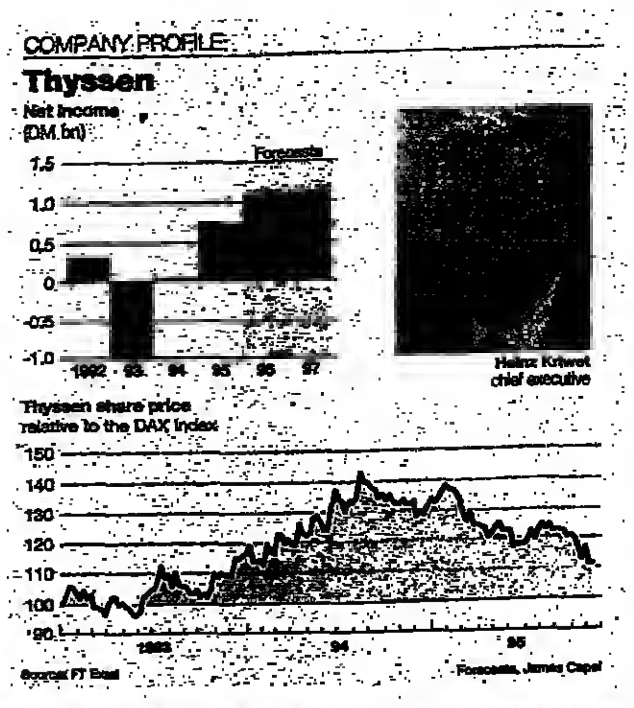
The equity ratio had also been bolstered by an unspecified amount following the sale earlier this year of a 10 per cent stake in Thyssen Telecom, the telecoms subsidiary, to Sal Oppenheim, the Cologne-based investment bank.

The company indicated that about half of the DM1bn operating profits came from the steel division. Thyssen Handelsunion was able to improve on its DM205m operating profits in 1994. Thyssen Industrie, the engineering division, was able to improve "significantly" on its operating profits of DM135m a year ago. Final results are expected in January.

Sales at Thyssen Industrie rose 5 per cent to DM8.5bn while sales at Thyssen Handelsunion increased 18 per cent to DM18.2bn, partly because of two new joint ventures.

Sales for the steel division rose 9 per cent to DM11.9bn. Turnover would have jumped 18 per cent had it reflected sales at three subsidiaries which are now joint ventures with Krupp Hoesch, the second-biggest German steelmaker, and whose results are no longer consolidated.

Analysts were loath to comment on possible developments in the steel market which are likely to impact on Thyssen's performance. "It's difficult to assess at this stage of the cycle whether we are seeing a slip which will turn into a rebound as in 1987, or whether the market is going to fall away completely," said Mr Charles Ranunkel, a steel analyst at Paribas.



KLM faces poison pill defence by Northwest

By Maggie Urry in New York

Northwest Airlines yesterday adopted a poison pill plan in an attempt to prevent KLM – the Dutch airline which has 21.5 per cent of Northwest's voting rights – or any other predator taking control of the group. The company said further consolidation of the airline industry was likely.

In a letter to its employees explaining the adoption of the plan, Northwest said "the conduct of KLM's management board over the past two years presents strong evidence that KLM represents a creeping control threat to Northwest". It said KLM had assembled a $3bn "war chest".

The tension between the two airlines, which have had an alliance for the past six years, is likely to increase after the board decision and the letter, which was couched in terms hostile to KLM.

Northwest told its staff that KLM had "incorrectly" portrayed the dispute between them and had threatened to sue the company.

KLM has already filed a law suit against the other shareholders who backed the 1989 buy-out including Mr Alfred Checchi and Mr Gary Wilson, co-chairmen of Northwest.

A board meeting yesterday voted 11 to three to set up the poison pill, limiting any one shareholder to a 19 per cent stake. The three votes against were from the three KLM-designated directors on the board.

Under the plan, if anyone acquired more than 19 per cent of Northwest's shares, the existing shareholders would be able to buy new shares at half the market value, thus diluting the aggressor's stake. The poison pill takes effect immediately.

This is a standard provision in the US, and Northwest said that in adopting the defence it was continuing the transition from a private to a public company. It said that its main competitors and most Fortune 500 companies have similar plans in place.

In the letter, Northwest referred to the breakdown of takeover talks between UAL, which owns United Airlines, and USAir early this week. It said "notwithstanding United's decision not to acquire USAir there is some likelihood of other airline acquisitions or mergers".

SBC considering expansion in US

By Ian Rodger in Zurich

Swiss Bank Corporation, which acquired the UK investment bank S. G. Warburg in June for £860m, is considering a significant acquisition in the US.

But the bank would not comment on reports in New York that it was in talks to buy Prudential Securities, the troubled brokerage subsidiary of Prudential Insurance of the US. "We do not comment on market rumours," the bank said.

However, Mr Marcel Ospel, chief executive of SBC Warburg, the international investment banking arm of SBC, said at a meeting with journalists in Zurich on Tuesday that the investment bank needed to strengthen substantially its distribution capacity in the US.

It already had strong specialised product activities in the US following its acquisitions of the O'Connor Partners derivatives business in 1992 and the Brinson asset management company last year, but needed a bigger distribution network.

Mr Ospel, who has been nominated to become chief executive of SBC next spring, said the group would probably decida within two months whether to improve its US corporate finance and distribution by way of en acquisition or through more gradual growth.

He pointed out that top US investment houses would likely remain vary expensive until the Glass-Steagall legislation forcing the separation of banking and securities businesses was repealed. Thereafter, prices were likely to fall significantly. Thus, any acquisition made now would probably take a long time to become profitable for the bank.

Mr Ospel said it was "very unlikely" that SBC would make a big acquisition in Wall Street. "It is more likely that we will buy a little boutique here and there," he said.

Mr Georges Blum, SBC chief executive, added that following the Warburg buy the bank no longer needed an established brand nama in international financial markets.

Prudential reshape, Page 19

Agfa buys Hoechst print unit

By Jenny Luesby

Agfa-Gevaert, the photographic subsidiary of chemical group Bayer, is to take over the printing plates business of German chemical company Hoechst for DM700m ($499m), in a move aimed at strengthening the subsidiary before its possible divestment.

The Hoechst business, which recorded sales of DM840m last year, is one of the world's biggest producers of offset printing plates, marketed under the Ozasol brand. It will be integrated into Agfa'a graphic systems business, which generated sales last year of DM2.8bn.

Agfa currently produces films and pre-press equipment, but very few printing plates. "Wa only supply a few specialist markets with plates," the company said yesterday. The Hoechst business would open up a broader market in printing which would help sales elsewhere in Agfa.

It said it had no plans to rationalise the Hoechst business, which employs 1,900 workers at production facilities in Germany, Italy, the US, Brazil and South Korea.

Graphics systems, which account for 42 per cent of Agfa'a sales, is one of its stronger businesses. However, the company as a whole has continued to deliver results described by Mr Manfred Schneider, chairman of Bayer, as "disappointing". On sales of DM6.75bn, it generated operating profits of only DM221m last year, equivalent to a margin of 3.3 per cent. Return on total assets was 3.4 per cent.

Photographic products, which account for a third of sales, and technical imaging, at one quarter, have been the most difficult areas for the company. Agfa's parent is now considering a public offering. It is embarking on a restructuring of Agfa, aimed at boosting the company's profitability.

Paribas sets targets for banking arm

By Andrew Jack in Paris

Paribas, the French financial services group, plans to sell its Crédit du Nord retail banking subsidiary within three years unless the business reaches adequate internal targets for profitability.

Executives are aiming to achieve a 10 per cent return on equity by 1998, failing which they are likely to try to find a buyer for the banking operation.

They are not currently in discussions for the sale of the group, but may begin to consider offers if Crédit du Nord is not on target to reach this objective in about 12 months' time, according to sources close to the company. The bank made profits of FFr19m ($3.92m) for the first half this year after losses for 1994 of FFr198m.

Their new target comes as Paribas acted this week to reinforce its management control over Crédit du Nord, creating a two-tier board and replacing Mr Bernard Auberger, the existing chairman, after less than two years in his job.

Mr François Henrot, a board member of the Paribas group management board, is to chair a newly-created supervisory board, while Mr Philippe Toussaint, Crédit du Nord'e managing director, will become chairman of the management board.

Paribas denied that Mr Auberger's move was a demotion, and stressed he had carried out an effective job in returning the bank to profit.

The bank argued the change was to bring the structure of Crédit du Nord into line with the two-tier board structure in place elsewhere in the group, and to ensure that the group as shareholder was more involved in important decisions taken in the bank.

Trying to please all of the people

Pricing is now the focus for a successful Eni float, reports Andrew Hill

EQUITY OFFERING

Rumour has it that Mr Bill Gates, tbe nbiquitons founder of Microsoft, is preparing to psy L50bn ($31m) for shares in Eni, Italy'e state-owned energy and chemicals group.

Italian and international institutional investors are said to be enthusiastic about the shares. Apparently aven Mr George Soros, the international financier, has been consulted about the forthcoming L10,000bn flotation.

Indeed, as exhausted Eni management, treasury officials, and advisers complete their 43-city, 70,000km international road show, it seems the good people of Volterra, a small town in Tuscany, are among the few still to be convinced about Italy's biggest privatisation.

"For the early privatisations there was a great crowd for applications – this time the requests are much lower," Mr Mario Corda, a financial manager at Cassa di Risparmio di Volterra, the local savings bank, said yesterday.

Mr Corda's concerns about retail demand need to be put into perspective. This is the first Italian privatisation for which small investors have been invited to pre-book their shares. The reservation period is still open and definitive figures for bookings have not been released.

The price will be announced tomorrow, and once the sale opens on Tuesday, there may be a last-minute rush by Italian families to invest part of their famously large cache of savings.

Bankers close to the privatisation claim that by the beginning of this week, the network of banks authorised to sell shares had received reservations for more than half the minimum retail trancha of 400m shares. Retail investments will account for between 400m and 1bn of the 1.35bn to 1.95bn shares on offer.

Volterra'e reluctance to reserve Eni shares is echoed by some other Italian high street banks, however. The Banca Popolare di Ancona, with 100 branches on the Adriatic coast, says pre-booking of Eni shares has been firm but not exceptional. With the minimum purchase set at 1,000 shares per investor, the bank has received reservations for 500,000 shares in total.

Mr Polinto Boaretto, finance director at Milan-based Banco Ambrosiano Veneto, one of Italy's biggest retail banks, blames weak demand from small investors on the recent fragility of the Italian equity market and, in particular, disappointment about the share price performance of other recently privatised companies.

Franco Bernabè: roadshow has restored Italy's credibility

According to other bankers, however, the treasury's innovative use of a "safety net" for investors – who will be reimbursed for a decline of up to 10 per cent in the Eni share price in the first 12 months after privatisation – has encouraged retail demand.

The treasury will be disappointed if only 400m shares are taken up by small shareholders. Like the British government before it, the Italian government has been hoping for a "people's privatisation".

But low retail demand would certainly not jeopardise the overall success of the sale. The tranches of shares reserved for professional investors are flexible enough to allow the slack to be taken up by Italian and international institutions.

Advisers to the privatisation say these tranches of the offer are already oversubscribed after a roadshow which – according to Mr Franco Bernabè, Eni's managing director – has helped restore Italy's credibility abroad as "a country which works and produces results".

The focus now is on the price. The treasury has set a range of between L5,250 and L6,000, but bankers and analysts said yesterday it would be unwise to set a price higher than L5,500 a share. Continuing political uncertainty in Italy is one reason why Rome is expected to aim low tomorrow.

But a more important factor is the government's desire, to sell, possibly over the next 12 months, further shares in Ina, the insurer, Enel, the electricity producer, Stet, the telecommunications holding company, and even e second tranche of Eni itself.

If Eni'e shares under-perform the market when trading begins on November 28, forthcoming privatisations will need more than a safety net to catch retail investors' falling confidence in the equity market.

هكذا من الأصل

AIG now an old China hand at selling insurance to the world

Ralph Atkins explains why a New York chief executive seems to be more acerbic about his own country than the developing economies

Mr Maurice "Hank" Greenberg, 70-year-old head of the US's largest commercial insurance company, is acerbic, dogged and expert at making handsome returns by selling insurance from Shanghai to the US.

New York-based American International Group, of which Mr Greenberg has been chief executive for nearly 30 years, is among the world's largest and most profitable insurers. Returns on equity have averaged about 15 per cent in the past 10 years, an enviable record by US or European standards.

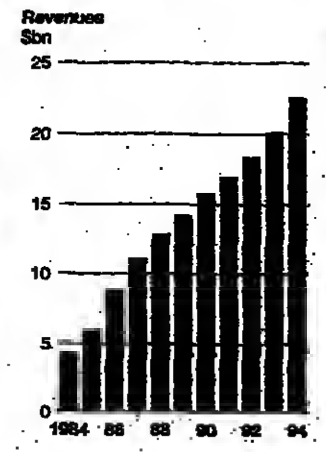
But profit ratios are not the only factor driving Mr Greenberg. "Let me tell you something," the veteran insurer says bluntly. "If all we did around here was make money and thought about nothing else, we would not consider ourselves successful."

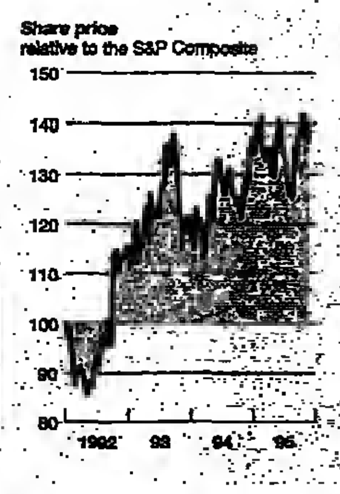
In the past month, the group has reaffirmed its role in opening into Far East markets by starting up an office selling insurance in Greater Guangzhou, the economic centre of southern China.

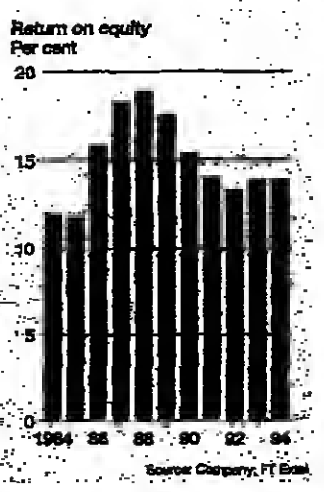
AIG is already active in Shanghai, China's largest city, where it has more than 5,000 agents selling life insurance. AIG's Shanghai licence was the first granted by China to a foreign insurer since the 1949 revolution. The only other foreign insurer allowed to trade in China is Tokio Marine and Fire, the Japanese insurer, also in Shanghai.

American International Group

Maurice R. Greenberg
Chief executive officer







Source: Company; FT Extel

AIG has had significant advantages in penetrating Asian economies, says Mr Greenberg. The group originated in Shanghai when Mr C.V. Starr (Mr Greenberg's only predecessor as chief executive) began insuring western companies with activities in the city. Mr Starr quickly realised the scope for making money by selling life insurance to the indigenous population, and the group expanded in China, Hong Kong, Indochina, Jakarta, Kuala Lumpur and the Philippines before establishing an office in New York in 1926.

"We had a different birth, we grew internationally before we grew domestically. And so it was a different mind-set, a different culture," says Mr Greenberg.

Now, he says, AIG has a significant role in fostering economies. "I don't know of any industrialised country that has developed without having a strong life insurance industry." The group's role is harnessing "the savings of millions of people and redeploying them within their economy and helping support the national priorities of those countries".

It is not just life insurance sold by AIG that helps development, Mr Greenberg points out. A fund launched last year raised $1.1bn (including $100m from AIG) for investing in south-east Asian infrastructure projects. In Russia, AIG established a small investment bank in 1992 before last year setting up the Russian American Insurance company, regarded as the first significant foreign investment in that country's insurance industry.

Part of the AIG "mind-set" is about making long-term political as well as business investments. Re-entering the Chinese market took 20 years of regular visits by Mr Greenberg.

AIG employs local managers, training Chinese students at its Pine Street, New York, headquarters near Wall Street. "We're not interested in a quick profit because it's generally the wrong strategy to have," says Mr Greenberg. "We're there for a long pull."

Despite AIG's interest in the developing world, Mr Greenberg argues that the US was right not to sign the World Trade Organisation accord on financial services liberalisation this summer. Backed by the European Union and 28 other insurers, the deal was seen in Europe as a significant step towards opening up Asian markets.

Mr Greenberg says that in some cases the deal did not even enshrine existing market liberalisation measures, let alone increased access by foreign insurers.

He regards liberalisation as an on-going process which has not yet left US insurers at a disadvantage. To hail the deal as a victory, as did Sir Leon Brittan, European trade commissioner, was "totally inappropriate. I thought it was just pandering".

Mr Greenberg can hardly be accused of not pushing at doors. "We think that fighting the good battle, by breaking down barriers and opening markets, benefits everyone," he says.

At home, a recent target has been the US system of insurance regulation. Controls are imposed by each state, and frequently dictate policy wordings and rates. The burden on US insurers has become more striking over the past year as the EU has moved to common standards based on checking insurers' overall solvency rather than interfering with terms of business.

As Mr Greenberg says: "State regulation is like doing business in 50 different countries. It is becoming more bureaucratic and more costly. Regulation that imposes a cost on the product without a commensurate benefit is not very good regulation."

His other target is US "Superfund" law on environmental clean-ups. This threatens those who insured polluting companies with hefty charges for damage caused decades ago. Due for renewal at the end of this year, delicate negotiations – in which Mr Greenberg is central – are taking place in Washington about replacement legislation.

The biggest issues are the extent to which liability should be retroactive and the amount of money – raised by taxes or from polluters and their insurers – needed to clean sites to an acceptable standard. Flaws in the Superfund framework have resulted in vast sums being spent on fighting legal battles over liability; money which could have gone a long way towards cleaning up sites.

A more widely-accepted system would have important consequences for insurers around the world. Mr Greenberg is optimistic that a more rational allocation of resources could mean insurers no longer being forced to pay for problems unforeseen when they were selling the insurance policies.

"We're down to whether or not there is enough money in the system to pay for complete repeal of retroactive liability, or a particular reform of retroactive liability," he says.

Ironically, AIG would not be greatly affected by Superfund reform. The group did not underwrite many of the policies on which claims are now being made. Unlike other US insurers, it has not increased environmental and other reserves lately.

Mr Greenberg's point is that whatever social responsibilities insurers have in developing economies, they should not extend to charity at home. "We are not acting as a non-profit making organisation. That is not our role. I'm saying to you that if we're successful in business, then our success creates *economic development*."

Is, then, the US legal and regulatory system an impediment to business? Mr Greenberg is not willing to make *excuses for weaker rivals*. "The legal system, the liability system is what it is. That is the market . . . Blaming failure on everyone else but the person you are looking at in the mirror doesn't make very good sense."

AIG's success, Mr Greenberg argues, has been because the group makes profits on its basic business – insurance underwriting. Other insurers, particularly in Europe, rely on gains from investments to make up for losses on underwriting. In a volatile financial climate, Mr Greenberg believes that explains why many face restructuring. "If you fail to make a profit on your basic business, over a long period of time, you will soon have no business. And that in fact has happened to many companies."

But the issue preoccupying AIG's shareholders is not its underlying profitability. Although an energetic 70-year-old, there is no obvious successor at AIG's helm. This summer, Mr Greenberg's son Jeffrey quit AIG for unexplained reasons to join Marsh & McLennan, the US insurance broker. Mr Greenberg Snr refuses to discuss why his son left but insists: "I have no intention of retiring."

Havana welcome warms up as Sherritt snubs Washington on trade

The Canadian nickel producer is about to launch a company that amounts to a Cuba country fund. **Bernard Simon** and **Pascal Fletcher** report

Mr Ian Delaney takes a gentle puff on the custom-made Cuban cigar that he has chosen from a humidor in his Toronto office. He blows a thick, perfect ring of smoke into the air. "Practice," explains the chairman and chief executive of Sherritt, the Canadian nickel and fertiliser producer.

Mr Delaney has smoked countless cigars, flown many times to Havana and taken his family on holiday to Cuba over the past four years to cement a relationship that has taken Sherritt from near bankruptcy to one of the largest foreign investors in Cuba, and certainly the most prominent.

The relationship will take another step forward today or on Monday, when Sherritt unveils the terms of a restructuring under which its Cuban interests and a handful of other operations outside Canada will be hived off into a separate company, Sherritt International.

Analysts describe Sherritt International as the closest thing to a Cuba country fund. The new company forecasts earnings of about C$36m (US$26.6m) this year on revenues of about C$255m. It will be virtually debt free, with C$200m in cash.

Mr Delaney predicts Sherritt International will have a unique advantage as Cuba evolves from a centrally-controlled economy to a regulated, market-oriented system. "The company's greatest intangible asset is its relationship with the government of Cuba," he says. "For the next four to five years, it has an opportunity to do things it couldn't do in any other jurisdiction."

Mr Delaney is one of a small group of international businessmen, such as US media tycoon Ted Turner and French poultry millionaire Gerard Bourgoin, who have developed good personal relations with President Fidel Castro – an undoubted asset when doing business with Cuba.

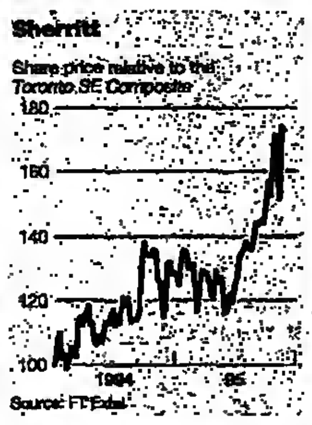
The Cuban government values foreign businesses that publicly defy US attempts to curb trade and investment on the communist-ruled island. Sherritt announced its planned restructuring and investment plans at a time when Republicans in the US were pushing a bill through Congress to tighten the existing embargo.

The proposed legislation would authorise US nationals to claim up to triple damages from companies which "traffic" in property seized by the Castro government. The bill has passed the House of Representatives but not the Senate.

About three-quarters of the new company's earnings and cash flow will initially come from an existing joint nickel venture between Sherritt and a Cuban government agency. But Sherritt also produces more than a third of Cuba's oil, and has interests in hotels and market gardening. According to the listing prospectus, it plans to expand into communications, transport, real estate, finance and sugar.

Cuban officials estimate Sherritt will invest between US$400 and US$500m on the island over the next few years.

It was as president of Horsham, the Toronto-based investment holding company controlled by the Canadian entrepreneur Mr Peter Munk, that Mr Delaney made his name. He and a partner took the helm at Sherritt in 1990 after gaining shareholder support in a proxy battle to oust the moribund company's directors.



Source: FT Extel

Ian Delaney: "We walked in as the Russians walked out"

The new management's first priority was to find feedstock for Sherritt's mothballed nickel and cobalt refinery at Fort Saskatchewan, Alberta. Cuba's nickel mines were equally desperate for a customer. "We walked in the front door just as the Russians were walking out the back door."

The joint venture's mines and processing plant at Moa Bay in eastern Cuba are expected to lift production to about 20,000 tonnes of nickel and cobalt this year, from 12,500 tonnes in 1994.

Moa Bay will contribute half of Cuba's total 1995 nickel and cobalt production which Cuban officials forecast will leap to more than 40,000 tonnes from 26,772 tonnes in 1994: "The association with Sherritt has a fundamental role in this recovery," says Mr Osvaldo Martinez, head of the Economic Affairs Committee of Cuba's National Assembly.

Output is expected to climb to 46,000 tonnes by 1999, with a relatively modest capital investment of US$173m. Moa Bay's nickel production costs would fall from US$1.05 to between 75 cents and 80 cents per lb, making it one of the world's lowest-cost producers.

Improved productivity among the 1,700 workers at Moa Bay has played a crucial role in boosting output and holding down costs. Sherritt's innovations have ranged from showers, lockers and steel-toed boots to anti-pollution technology and a "stimulation bonus" paid in US dollars. Two processing plants in eastern Cuba are being modernised with credits from Dutch, German and other international banks.

However, Sherritt has paid for defying the US embargo. According to the prospectus, the embargo "limits access to US capital, US finance, US customers and US suppliers". The Fort Saskatchewan refinery has lost its biggest market, although it has replaced US customers with business in Europe and Asia. Sherritt has barred US investors from buying shares in Sherritt International.

Cuba's lessening isolation has created risks as well as opportunities. Several US companies, which owned the Moa Bay properties before they were expropriated by the Castro government, have threatened legal action to recover their assets. Sherritt says however, that its Cuban partner has agreed to indemnify it for any damages.

Mr Delaney predicts the island "will careen around for a little bit" when the 36-year-old Castro era finally ends. He says longer-term stability will depend heavily on how quickly more flexible regulatory mechanisms can be put in place.

Sherritt's nickel venture broke new ground by introducing business concepts that required a shift in the Cuban leadership's thinking. The government has recognised private property ownership, environmental standards and responsibilities, and the right of a Cuban enterprise to make investments overseas.

Mr Delaney is sufficiently confident that the pace of change will be sustained to have talked to Cuba's central bank governor about distributing Sherritt International shares through local savings banks. One symbol of success, he says, would be for Cubans to own a sizeable slice of the company in the next 10 years.

Merger would form powerful defence force

Boeing and McDonnell Douglas face problems on civilian side, write Bernard Gray and Michael Skapinker

If Boeing and McDonnell Douglas do end up merging, they will find it far easier to combine their defence businesses than their civil aircraft manufacturing.

All McDonnell Douglas's civil aircraft compete directly with Boeing products. A combined company would find it impossible to market them all; analysts say a merged company would have to wind McDonnell Douglas's civil aircraft manufacturing down.

McDonnell Douglas makes three aircraft: the MD-11, which carries up to 400 passengers; the MD-90, with 150 seats; and the MD-80, which accommodates up to 170 travellers. The company also plans to start making the 100-seat MD-95, for which it recently announced a 100-aircraft order from ValuJet, the cut-price US carrier.

The difficulty for the merged company would be that the MD-11 competes directly with the Boeing 777. The remaining McDonnell Douglas aircraft compete with one or other version of the Boeing 737.

Merger would be less painful in the defence business, where, by and large, the two companies' products are complementary.

McDonnell Douglas has a strong position in the current generation of US combat aircraft, while Boeing has a stake in the next generation of fighters.

McDonnell's range includes the F-15 "Eagle" air superiority fighter, which is the heavy US combat aircraft; the F/A-18 navy fighter and attack aircraft; the AV-8B US Marines' vertical take-off fighter based on the British Aerospace Harrier; and the T-45 "Goshawk", an advanced jet trainer based on the BAe Hawk.

While several of these aircraft are likely to carry on in production well into the next century and are good export earners for the US, most were designed in the 1970s and lack features such as radar-avoiding stealth.

Because McDonnell lost out in the race to supply the US air force with its next generation fighter, its fighter force has a finite life.

Boeing does not have McDonnell's range of military products but it does have two new programmes about to come into production. It has a one-third share in the $71bn F-22 stealth programme, which will provide the USAF with a state-of-the-art fighter, and a half-share in the $42bn V-22 "Osprey" for the US Marines. The V-22 can fly like a helicopter or a conventional aircraft and is designed to move troops from aircraft carriers to beachheads rapidly.

The combination of McDonnell's existing franchise and export potential and Boeing's new products for the US market, would make an alliance a very powerful force in the US defence industry. It would leave only Boeing-McDonnell and Lockheed Martin as significant military aircraft producers. Lockheed having two-thirds of the F-22 and full production of the F-16 light fighter.

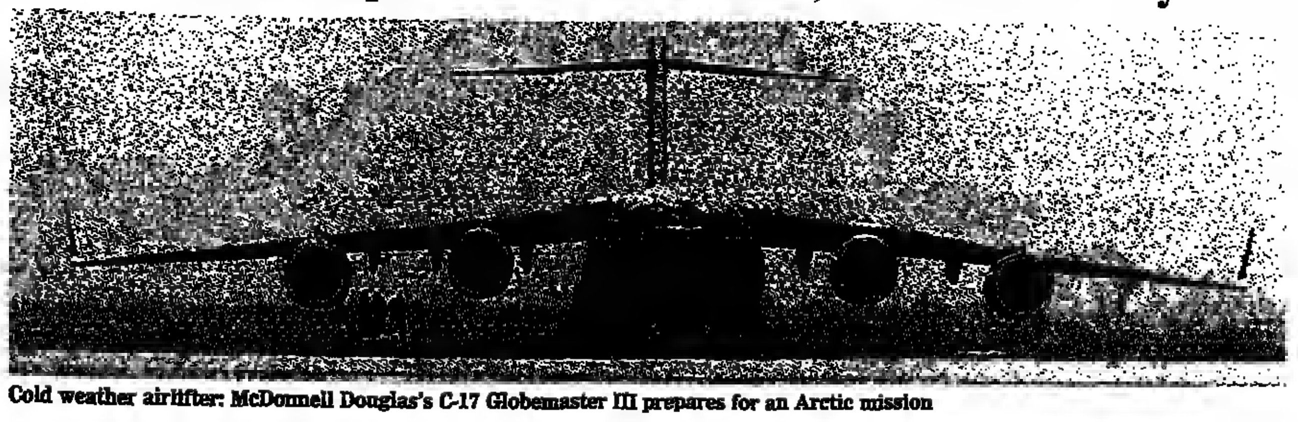
Significantly, McDonnell also recently won a $18bn contract to produce a further 80 of its C-17 military transport aircraft for the USAF. This is produced at Long Beach, in southern California, and would remain there even in a merged company, helping to secure aerospace jobs in the politically sensitive state.

Fighter aircraft production in a merged company could remain at Boeing's Seattle site and McDonnell's St Louis headquarters, or could be consolidated at St Louis, depending on political sensitivities on regarding labour relations.

Smaller businesses in the two companies might also be rationalised. McDonnell's helicopter operation, which produces the AH-64 "Apache" attack helicopter in Arizona, could be merged with Boeing's Chinook large transport helicopter operation based near Philadelphia.

McDonnell's ailing missile business could either be sold or used as a basis for the merged group to buy into a larger guided weapons operation. The two companies' space station business could also be brought together easily.

The complementary nature of the two companies' defence portfolios means that they would be unlikely to face strong opposition to any merger from the Department of Defense.



Cold weather airlifter: McDonnell Douglas's C-17 Globemaster III prepares for an Arctic mission

Prudential set to reshape divisions

By Maggie Urry in New York

Prudential Insurance of America is reorganising its business to capitalise on the trend towards greater retirement planning in the US. Restructuring at the mutual insurance group over the next 18 months is expected to cut annual costs by $800m.

The move is the latest sign that Mr Arthur Ryan, brought in a year ago as chairman, is shaking up the ailing group. Earlier this year, the home loans business was put up for sale, and last month, the reinsurance subsidiary was floated.

Mr Ryan, the first outsider to head Prudential, told staff on Monday night that the reorganisation would lead to job losses, although he did not say how many.

The cuts would be business driven and not across the board, the company said. While at Chase, Mr Ryan oversaw 8,000 job cuts.

One of the main elements of the new seven-division structure is the creation of a money management group which, Mr Ryan said, would "help Prudential respond to changes that have taken place in the financial services industry in the last decade, particularly consumers' need to provide for their own financial security".

Analysts had said Prudential had been slow to get into the fast-growing 401(k) personal pensions business, which has fuelled the growth in mutual funds in recent years.

The new division will bring together Prudential's mutual funds, annuities, defined benefit and defined contribution pension products.

These activities had previously been managed separately, but the amalgamation would "focus the company's resources on an increasingly important segment of the financial services market", it said.

The other divisions will be individual insurance products, where a new marketing and product development unit will be set up; the Prudential Securities brokerage activity; Prudential HealthCare, which operates managed health plans; private asset management; international insurance and a diversified group including Prudential Bank and Trust.

Mr Ryan said the Prudential Securities brokerage business was not for sale. The business is the fifth largest stockbroker in the US but had been hurt in recent years by the disclosure the firm had fraudulently sold risky limited partnerships to unsophisticated investors in the 1980s.

Arthur Ryan: restructuring will lead to job losses

Kmart slips into the red in third term as price cuts take effect

By Maggie Urry

Kmart, the struggling discount retailer, made a net loss of $118m in the three months to October 25, excluding a $48m one-off gain, as savage price cutting slashed the group's gross margin.

The third-quarter result was much worse than the market had expected, despite a profit warning in early October.

Mr Floyd Hall, the chairman and chief executive hired in June to turn the company round, said: "Our gross margin shortfalls continue to be a major problem."

The losses echo problems at other retailers. Some discount retailers have sought Chapter 11 protection from creditors, and many store chains have reported lower profits for the third quarter, blaming a difficult consumer spending background and heavy promotional activity.

Kmart's loss compares with net income of $21m from continuing operations in the same period last year. Earnings per share of 4 cents turned to a loss of 26 cents. Early in October the group had warned that third-quarter results would be "well below" the 1994 third-quarter level.

Since then, rumours, denied by the company, that it would go into Chapter 11 and that it was facing a demand for repayment by some bondholders, have driven the shares lower in recent weeks. The shares, which climbed to $18¼ after Mr Hall's appointment, fell $¼ yesterday to $7⅛.

Kmart reported an increase in sales from $7.78bn to $7.98bn, with those in comparable stores in the US Kmart chain up by 4.1 per cent. However, operating profits from the US Kmart chain of $141m in the third quarter of 1994 turned to a loss of $81m.

The company said profits were affected by "aggressive clearance of discontinued inventory, including promotional activity, liquidating closed stores and shifts in the company's merchandise mix". There was also a poor performance from the Builders Square chain, which lost $3m at the operating level, and the Canadian operation, where profits fell from $7m to $5m.

The price cutting, plus higher-than-expected losses through shrinkage, reduced the gross margin from 24.4 to 21.2 per cent. Mr Hall said: "We anticipate that the impact on the gross margin will moderate during the fourth quarter."

During the third quarter the group took a $48m gain, worth 15 cents a share, from the sale of its remaining stake in the Sports Authority chain. Interest charges in the quarter fell from $133m to $96m.

For the first nine months, net income of $151m in 1994 turned to a net loss of $151m in 1995.

Eastman to build 'world scale' PET plant in Argentina

By David Pilling in Buenos Aires

Eastman Chemical Company of the US is to build its first South American plant for the production of polyethylene terephthalate (PET), the raw material for plastic bottles, outside Buenos Aires in Argentina.

The plant, which will produce 130,000 tonnes of PET annually from 1998, is intended to supply bottle manufacturers in most South American countries, but principally in Argentina and Brazil.

Mr Thomas Smith, president for Latin America, yesterday refused to confirm a report that Eastman was intending to spend $180m on the plant, to be located in Zárate, but said the investment was on a "world scale". The factory, construction of which will start in early 1996, is expected to employ 130 people after the start of production in the second quarter of 1998.

Mr Smith said Eastman had looked at several other locations, including Chile and Brazil, but had selected Buenos Aires partly because of its efficient port facilities and good transport network.

One of the plant's main raw material requirements, purified terephthalic acid (PTA), will be imported from the US, making low port costs a "key factor".

The demand for PET is growing by 15 to 20 per cent annually in Latin America, according to Eastman. Rapid growth is associated largely with the fast rise in soft drink sales. "This is our first plant in South America, but we certainly don't expect it to be our last," Mr Smith said.

Eastman, which produces 770,000 tonnes of PET annually, is also constructing plants in the US, Mexico, Spain and the Netherlands. By the end of 1998, by which time all new production is expected to be on stream, Eastman hopes to double annual production to 1.5bn tonnes.

ASIA-PACIFIC NEWS DIGEST

Eva Airways to fly Taipei to HK direct

Eva Airways, Taiwan's largest private carrier, has been awarded rights to fly the lucrative route between Taipei and Hong Kong. Taiwan's transport ministry also granted Eva and TransAsia Airways, another private Taiwanese carrier, permission to fly betweeo Taiwan and Macau, the first direct air links with the Portuguese enclave.

Eva has lobbied for many years to gain access to the coveted Hong Kong route, previously a duopoly between Hong Kong's Cathay Pacific and Taiwan's flag carrier, China Airlines. Taiwan recently reached draft air services accords with the British colony and Macau, but formal pacts have not been signed.

Taipei has banned direct flights to China since 1949, forcing travellers between Taiwan and the mainland to pass through a third country. Hong Kong has long been the main beneficiary of the ban but Macau, due to open a oew international airport shortly, intends to win some of the Taiwanese traffic going to or from China.

Dubbed tbe "golden route" in Chinese, the Hong Kong-Taipel market alone represents 10,000 seats a day, with an estimated 70 per cent of passengers en route to or from China. Trips by Taiwanese to China for business and tourism have have soared since the late 1980s and most travellers pass through the British colony in the absence of direct flights across the Taiwan strait. *Laura Tyson, Taipei*

Japan trading companies rise

Japan's nine leading trading companies posted firm unconsolidated recurring profits for the first half to September, with the combined profit figure rising for the first time in five years. The Japan Foreign Trade Council, an industry association, said recurring profits – before tax and extraordinary items – rose 7.5 per cent to Y130.8bn ($1.29bn) because of a decline in interest payments. Sales however, were down 4.7 per cent to Y46,530bn, while net profits rose 15.1 per cent to Y48.3bn, also the first rise in five years.

The trading bouses' combined debts fell by Y400bn to Y16,740bn after cash and deposit boldings had been trimmed, cutting the companies' combined net interest payments by Y13.6bn to Y2.1bn. Analysts focus on the companies' consolidated figures rather than parent earnings, since the trading bouses are usually at the ceotre of a large corporate grouping, witb numerous affiliates and subsidiaries.

Mitsui reported the largest non-consolidated recurring profit growth, with the figure rising 21.5 per cent to Y26.4bn. Nichimen saw its recurring profit rise 20.4 per cent to Y6.2bn and Nissbo Iwai posted an 18.2 per cent rise to Y8.7bn. Kanematsu, bowever, suffered a 52.5 per cent fall in recurring profits to Y1.2bn and Itocbu reported a 2.6 per cent decline to Y18.1bn. *Emiko Terazono, Tokyo*

Tenaga Nasional hit by cost rise

Tenaga Nasional, Malaysia's semi-privatised electricity utility, suffered a 17 per cent pre-tax profits decline to M$1.64bn (US$648m) for the year ended August 31 1995. Group turnover was up 22 per cent at M$6.9bn. The company, which is one of the biggest on the Kuala Lumpur stock exchange and accounts for about 10 per ceot of the total worth of the market, blamed the increased cost of buying power from a number of independent power producers (IPPs) which have recently started operations in Malaysia.

Under the government's privatisation programme seven IPPs have licences to produce electricity. They have been coming on stream over the past year and Malaysia has moved from serious power shortages to power surpluses. Under government sponsored power purchase agreements Tenaga bas to buy power produced by the IPPs at a set price, whether or not there is a market.

Tenaga also suffered from the government's refusal earlier this year to allow it to raise its tariffs. Tenaga had argued that the tariff increase was in line with a pricing formula agreed at its partial privatisation in 1992, and was necessary both to meet the costs of its capital investment programme and to purchase power from the IPPs. However, the government said the increase was unwarranted and called on Tenaga to make more cost reductions. The government's action won praise from electricity consumers but angered foreign and domestic investors.

The government continues to bold a 70 per cent stake in Tenaga though there have been reports that it intends to sell off the bulk of its shareholding, possibly to one of the new IPP companies. Teoaga declared an unchanged final divideod of 7 Malaysian cents. *Kieran Cooke, Kuala Lumpur*

Goodman Fielder marking time

Goodman Fielder, the Australian food group which has seen major board and management changes receotly, warned shareholders yesterday that it would post a first-balf result in line with last year's, but that it would be sometime before profits improved. In the first half of 1994-95, Goodman Fielder earned a net A$30.3m before a A$30m abnormals loss.

"We are under oo illusions ... It will be 18 months to two years before we start to see tangible results from the action we have begun to put in place," said Mr David Clarke, the company's new chairman, at the annual meeting. Mr David Hearn, the new chief executive who arrived from United Biscuits in the UK, added that 1996 would be "a year of refocusing on the operating basics" and would not necessarily see "significant growth in profits". But, he added, Goodman would aim to reverse the downward trend of the past five years. *Reuter, Sydney*

US utility acquires another Victoria distributor

By Nikki Tait in Melbourne

The lucrative privatisation of Victoria's electricity distribution companies continued yesterday when the Australian state announced the sale of Powercor, which distributes electricity to western Victoria.

Powercor has been sold to PacifiCorp, the Portland, Oregon-based utility, for A$2.15bn (US$1.6bn).

This is the highest price paid for one of the state's electricity distributors.

Powercor is the fourth of the five distribution companies to be sold by the state government and the price consideration is the highest reached to date.

The final company to be sold is Citipower, whose distribution area covers central Melbourne, including the city's business district.

Entergy, another leading US power company, was named as the preferred buyer for Citipower, although terms have not been finally determined.

Nevertheless, proceeds from the four sales which have been agreed total about A$7.2bn, including franchise fees. This led Mr Alan Stockdale, Victoria's state treasurer, to predict yesterday that the total price for the five distribution companies should reach A$9bn.

Powercor provides services for about 540,000 customers in an area stretching from Melbourne's western suburbs to the South Australian state border. Its assets in 1993-94 were just under A$1bn, and its revenues, A$699m. It has about 1,500 employees.

It is the first international utility investment for PacifiCorp, which was an unsuccessful bidder in the earlier auction for Eastern Energy. Eastern was eventually sold to Texas Utilities.

So far, all four distribution companies have been bought either by US-based utilities directly, or by consortia with heavy US involvement.

The sales of the five distribution companies, which were created when the former State Electricity Commission of Victoria, a government-owned monopoly, was reorganised, are due to be completed this year.

These asset disposals are the first step in a plan by the government to turn the state's electricity industry over to the private sector.

Sales of some of the generating businesses are expected to follow next year. The state government is using proceeds from the privatisations to pay off the A$30bn debt it inherited when taking office.

NAB turns in 15.3% advance to A$1.97bn

By Nikki Tait

National Australia Bank, the largest and the strongest of Australia's four big banks, yesterday reported an increase in profits in the year to the end of September. Profits after tax and abnormal items were A$1.97bn (US$1.45bn), against A$1.7bn in 1993-94, a rise of 15.3 per cent.

Earnings per share increased by 10.8 per cent to A$1.41, against A$1.27 previously, and the final dividend is 43 cents a share, making 83 cents for the year, against 74 last time. The bank added that the return on shareholder funds increased to 17.8 per cent, up from 17.5 per cent in the previous year.

Across the group, net interest income rose to A$4.57bn, compared with A$4.23bn previously. The charge for bad and doubtful debts, meanwhile, fell from A$179m to A$116m, and other operating income was little changed at A$2.3bn. Operating expenses increased from A$3.7bn to A$3.91bn.

Mr Don Argus, chief executive, acknowledged there would probably be some comments about the bank not making inroads into the cost base. But he pointed out it had incurred one-off expenses of A$320m over the year – generally charged as an operating cost – as it upgraded distribution technology.

Technology-based expenditure was also cited as a reason for the flat performance of the UK-Irish banking group, which includes the Clydesdale, Northern, Yorkshire and National Irish banks – something Mr Argus said would continue in the current year. Together, these businesses made operating profits of A$420m before goodwill amortisation, against A$428m last time.

By contrast, the Australian operations produced an operating profit of $1.26bn, up 25.1 per cent, while the New Zealand group saw a 50.3 per cent increase, to A$215m.

Don Argus: refused to speculate on the bank's next move

Mr Argus said the "next challenge" would be to integrate Michigan National, the Detroit-based bank which NAB acquired for US$1.55bn earlier this month. He added that integration "was not going to be too great a challenge".

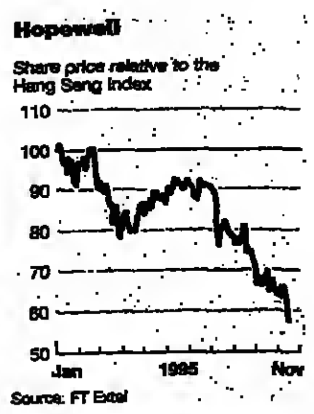
He stressed that NAB remained an acquisitive bank, but refused to speculate on where it might move next. It has never made a secret of its desire to add a business in the south-east of England.

However, with banking consolidation continuing apace in the US, there have been suggestions NAB might need to move again quickly there.

The bank was interested in developing its Asian operations, he added, although the market was "tough" and acquisition opportunities limited.

Investor doubts hit Hopewell and Cepa shares

By Simon Holberton in Hong Kong



The shares of Mr Gordon Wu's Hopewell Holdings and its listed subsidiary Consolidated Electric Power Asia came under heavy selling pressure yesterday amid investor uncertainty about the outlook for both companies' earnings.

Hopewell fell 8.5 per cent to HK$4.05 in Hong Kong before ending the day 17.5 cents lower at HK$4.20, while Cepa declined HK$1.35 to end the day more than 10 per cent lower at HK$11.80.

HSBC Holdings' two subsidiaries in Hong Kong – Hongkong and Shanghai Bank and Hang Seng Bank – have more than US$1bn in loans to Hopewell alone.

Hopewell and Cepa are closely associated with the personality of Mr Wu, a dynamic entrepreneur who saw opportunities for private business in large scale infrastructure projects, such as roads and power stations.

His enthusiasm for these projects proved infectious for international investors.

But the shine on both dulled significantly this year as doubts about some projects surfaced. "There is almost total uncertainty surrounding these companies," said Mr Archie Hart, research director at Crosby Securities. "However much you admire the man and his projects it's impossible to evaluate them because so many contracts are being renegotiated."

Hopewell, best known to foreign investors for its "super-highway" connecting Shenzhen to Canton, is renegotiating the terms of the three-phase project. In particular Mr Wu is attempting to improve the terms under which profits are shared on the first, and so far only completed phase, so that Hopewell receives 80 per cent of the profits, rather than 40 per cent as previously agreed.

Reports in local Chinese newspapers quote Hopewell officials as being optimistic that Mr Wu can renegotiate the profit-sharing agreement on the highway. However, even if successful, concerns will still persist, analysts say.

They point to problems he is experiencing in constructing a US$3bn light rail system in Bangkok where, with every change in the Thai government, costs seem to change. Furthermore, Cepa, regarded as Asia's leading private power station builder, seems to be encountering problems.

In southern China, the start of Shajiao C power station has been delayed. In the Philippines, it is unclear when investors will see revenues flow from Cepa's recently-completed Pagbilao power station.

Napocor, the government utility responsible for transmission, has failed to build transmission lines to the station and the two companies are embroiled in a dispute about compensation and quality of construction.

Life operation trims bank's UK profits

By John Gapper and James Buxton

Post-tax profits at National Australia Bank's UK and Irish subsidiaries fell slightly from A$428m to A$420m (US$313.4m) as costs increased because of heavy investment in a life insurance operation and in new technology.

Profits at Clydesdale Bank, Northern Bank and Yorkshire Bank were largely flat with only modest income growth. But National Irish Bank gained from a lower charge for bad and doubtful debts and stronger income growth.

Mr Glenn Barnes, UK managing director, said the bank was investing in its UK subsidiaries to improve efficiency, and expand market share. It expected these changes to lead to income growth from next year onwards.

Mr Barnes said NAB was interested in buying a UK building society if it could find one that would allow it to "expand and broaden" its customer base. The bank does not have a subsidiary in the south of England.

The bank sustained A$35m of start-up costs in setting up its life operation, National Australia Life, which will sell products through subsidiaries.

Pre-tax profits at Clydesdale, the Scottish subsidiary, rose by 3.4 per cent from A$235m to A$243m. Mr Frank Cicutto, chief executive, said the bank's performance reflected that of the Scottish economy where growth was patchy.

He said it was in a "transitional phase" as it digested major changes in its operating methods. Since mid-1993, it has moved processing from its branches to two centres and separated business lending from personal lending.

Mr Cicutto, who returns to Australia next March, said the year's result was satisfactory "recognising the enormity of the internal change agenda".

Yorkshire Bank recorded a 2.1 per cent rise in pre-tax profits from A$290m to A$296m. Costs rose by 15.7 per cent from A$421m to A$487m, largely because of spending on new technology and a revaluation of property.

Pre-tax profits at Northern Bank fell by 8.3 per cent from A$132m to A$121m. This was partly because of an abnormally high charge for bad and doubtful debts in the previous year after it cleared some lingering bad debts.

Pre-tax profits at National Irish Bank more than doubled from A$20m to A$42m.

Engen details plans to float subsidiary

By David Lascelles, Resources Editor

Engen, South Africa's largest independent oil company, is to float up to 45 per cent of its exploration and production arm to raise about $80m-$100m.

Mr Rob Angel, chief executive, said yesterday half the shares would be sold in South Africa and the remainder to offsbore investors.

The flotation will take place in tbe first quarter of next year, and the shares will be listed on the Johannesburg stock exchange. Mr Angel said the initial response from international investors had been encouraging.

The flotation is designed to free capital for group expansion, and ease the effect of South Africa's tough foreign exchange controls on the group's exploration and production activities.

Mr Angel said Engen expected better financial results in tbe current year than in the period ended October 30, when group profits plunged 72 per cent to R116m ($31.9m).

Fairfax hurt by rising newsprint costs

By Nikki Tait

The slowdown in the Australian economy and rising newsprint costs hit John Fairfax, the newspaper publisher, in its first quarter to end-September. The group yesterday announced a 17 per cent drop in after-tax profits to A$51.2m (US$37.7m), on revenues 8.7 per cent higher at A$259.8m.

Fairfax warned that it expected the economic slowdown to continue in the second and third quarters. It maintained that uncertainty over the timing of the next federal election – which must be called by May 1996 – would undermine consumer and business confidence.

However, it said that "while shareholders should not expect a continuation of the high growth rates of the past four years, a satisfactory result can be achieved in the current year, barring any further deterioration in the Australian economy or other unforeseen circumstances".

With the results in line with market expectations, Fairfax shares held steady at A$2.60.

The company said classified volumes for the Sydney Morning Herald and The Age newspapers in Melbourne increased 5.8 per cent and 4.3 per cent, respectively. However, display advertising volumes were marginally lower in the Herald and down by 9.9 per cent in the Age. Display volumes in the Australian Financial Review slipped 2.9 per cent.

The sharp downturn in the Australian housing market caused property advertising volumes in the two main papers to fall 5 per cent, although employment and motor-related volumes grew 10 per cent.

The 8.7 per cent revenue rise was easily outstripped by a 14.5 per cent increase in operating costs, to A$188.8m. This largely reflected a 22 per cent rise in newsprint costs, with the average costs for coated paper, used in magazine publishing, rising 42 per cent. Excluding these items, costs rose 5.7 per cent.

Interest costs rose 14.4 per cent to A$10.1m, as a result of higher rates and an increase in debt levels.

Fairfax, the subject of much takeover speculation, has three media proprietors on its share register. Canada's Mr Conrad Black owns 25 per cent; Mr Kerry Packer, the Australian businessman, has about 17 per cent; and Mr Rupert Murdoch holds an interest below the 5 per cent disclosure level.

Cable & Wireless *interim* results

Financial Highlights for Six Months to 30 September 1995

	1995 $m	Growth %
Revenue	4,284	7
Operating Income	1,005	7
Income before Tax	1,288	44
Income before Tax excluding exceptional item	974	9
Earnings per ADS	$0.93	65
Earnings per ADS excluding exceptional item	$0.62	9
Interim Dividend per ADS	$0.15	9

The increase in earnings demonstrates our success in Asia, Europe and the US/Caribbean in developing our core business areas and reflects our management focus on delivering consistent and superior earnings growth.

We aim to deliver innovative high-quality and cost-effective services to our customers worldwide by capitalising on our international partnering skills.

We are continuing to expand our mobile networks and we now have operations in more countries than any other telecoms company.

Our Business Networks are growing rapidly as more multi-national customers choose our global communications services.

We have rationalised our business portfolio by selling our Mercury CPE Division and Mannesmann Mobilfunk investment.

THE CABLE & WIRELESS FEDERATION

An alliance of the world's most creative communications companies.

An exchange rate of £1 = US$1.5804 has been used to translate £ sterling to US dollars. Such translations are for convenience only and should not be construed a representations that £ sterling amounts have been converted to US dollars at that or any other rate. The declared interim dividend will be payable in cash on 11th March 1996 to American Depository Share (ADS) holders who are registered with The Bank of New York as of 12th December 1995. Additional information and specific enquiries concerning Cable and Wireless ADSs should be addressed to The Bank of New York, American Depository Receipts, 101 Barclay Street, 22nd Floor West, New York, NY 10286, USA (Telephone (212) 815-2804, Fax (212) 571-3050, Telex 02783). General Investor Relations enquiries should be addressed to Thomas F. McDonnell, Vice President Investor Relations, Cable and Wireless plc, 777 Third Avenue, 35th Floor, New York, NY 10017, USA (Telephone (212) 407-2030).

Cable and Wireless plc, 777 Third Avenue, 35th Floor, New York, NY10017, USA. Visit our Web Site on the Internet at http://cwix.com/cwplc/

L&G fund shake-up to benefit investors

By Alison Smith

Shareholders and policyholders are to benefit from the restructuring of the long-term UK fund at Legal & General, one of the UK's largest life assurance groups.

The biggest immediate payment will be a £160m ($252m) special bonus to 1.4m policyholders next year. Shareholders will benefit from a £18m extra distribution next year, and from the greater flexibility which L&G will have in what it can distribute over the longer term. The moves follow discussions with the department of trade and industry, the life sector's prudential regulator.

L&G's shares closed up 22p at 667p, and the move raised the price of shares in other life companies. Prudential, the UK's largest life insurer, finished 20p higher at 415p, although it is not in discussions with the DTI.

The announcement shows that where assets in a long-term fund can be attributed to shareholders and are not needed for the business, the DTI will agree that these can be transferred to shareholders over time.

Mr David Prosser, L&G chief executive, said work on the long-term fund had revealed that the "with-profits" fund which makes up the bulk of the £18.4bn long-term fund was stronger than had been thought. The £13.2bn with-profits fund contained about £1.2bn-£1.5bn more than would be needed to meet the fund's "realistic liabilities" such as future bonuses, he said.

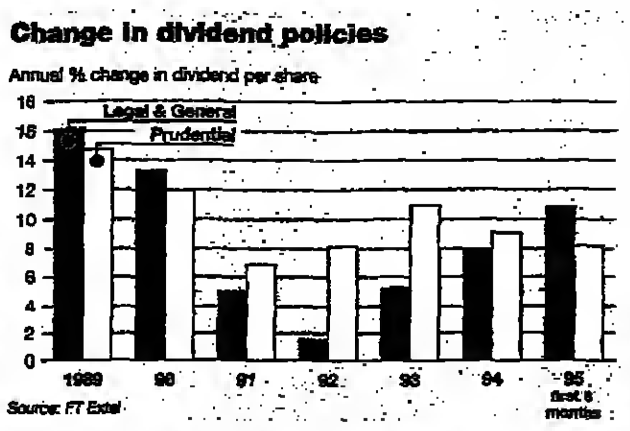
With-profits business is a particular type of life assurance, which smoothes policyholders' returns and insulates them from the extremes of stock market performance.

The restructuring of the long-term fund will draw a clearer line between the with-profits fund, where policyholders get 90 per cent of any pay-out and shareholders can get only 10 per cent, and the rest of the fund where shareholders take all the risk and are entitled to all the reward.

The planned changes, which have been agreed with the DTI and an independent actuary to look after policyholders' interests, should come into effect early next year. Policyholders will have an opportunity to comment, but their formal consent is not required.

Change in dividend policies

Annual % change in dividend per share



Source: FT Extel

Advances overseas behind C&W rise

By Alan Cane

Interim results at Cable and Wireless, the UK-based international telecommunications group, indicate that it is beginning to deal with the most pressing problems at Mercury, its principal UK subsidiary.

Furthermore, new businesses abroad, the start-up losses of which had helped depress profits last year, were either moving into profit or substantially cutting losses, according to Mr Rod Olsen, group finance director. There had been an aggressive approach to cutting costs across all areas.

Pre-tax profits in the six months to September 30 grew 44 per cent from £567m to £815m ($1.29bn), including an exceptional profit of £199m from the sale of the stake in Mannesmann Mobilfunk, the German telecoms operator. The underlying improvement was 9 per cent.

Turnover increased 7 per cent to £2.71bn (£2.54bn). Operating profits rose to £636m (£592m). Mr Olsen said they would have been £30m higher if last year's sterling exchange rate with the Jamaican and Hong Kong dollars had prevailed.

Earnings per share were 19.6p, against 11.9p previously. The interim dividend is raised to 3.08p (2.83p).

Lord Young, executive chairman, said progress continued. He had previously described as "disappointing" a 22 per cent fall in pre-tax profits last year caused by declining profitability at Mercury, the principal UK competitor to British Telecommunications, overseas start-up costs and currency effects.

Mercury's operating profit rose 7 per cent to £103m on turnover up 5 per cent to £833m.

The group remains heavily dependent on Hong Kong Telecom, in which it has a majority stake, for both turnover and profitability. The Asian operator raised revenues 5 per cent to £1.16bn and operating profits 8 per cent to £439m.

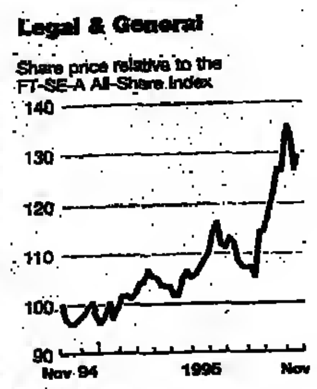
LEX COMMENT

Legal & General

Legal & General pulled off a remarkable trick yesterday. The UK insurance company announced a special bonus to policyholders and boosted its share price at the same time. Both policyholders and shareholders are right to be happy mainly because the company turns out to be sitting on much bigger surpluses than was previously thought. A £150m increase in the non-profits surplus belongs directly to shareholders. Ultimately, they also stand to gain 10 per cent of a newly-discovered surplus of up to £1.5bn in the with-profits fund. Nor is that the end of the story. L&G will now be able to pay out its non-profits surplus to shareholders much more quickly than before. What was previously a stream of £30m a year could now be as much as £90m.

Legal & General

Share price relative to the FT-SE-A All-Share Index



Source: FT Extel

Although this makes no difference to the underlying value of the shareholders' investment, it should still allow the company comfortably to finance annual dividend growth of 10 per cent or more, substantially better than the average of 6-7 per cent for the sector.

The prospect that stronger dividend growth from L&G will force others to follow suit provides some explanation for the rally in other insurance stocks yesterday. But the reaction is otherwise irrational, since Legal's position is unique. The reason is that surpluses in its non-profits fund are, unusually, ring-fenced for shareholders. Other insurers have to share them with policyholders.

Hopes that Legal's deal will lead to a widespread bonanza for shareholders are misplaced.

N American papermaking investment boosts Scapa

By Tim Burt

Scapa Group yesterday said rising paper prices and buoyant demand for papermaking equipment had fuelled a 20 per cent increase in first-half profits. The industrial materials group, which supplies engineered fabrics, rollers and roller covers to the paper industry, saw pre-tax profits advance from £23m to £27.7m ($44m) in the six months to September 30.

Mr David Dunn, chief executive, credited the improvement to increased investment by North American paper manufacturers, which have enjoyed a surge in profits during the past year.

"After tax earnings in the paper industry have increased by 240 per cent in the US and by more than 300 per cent in Canada," he said.

That helped lift operating profits from £26.8m to £31.9m, including £1.4m from acquisitions, on sales of £248.2m (£205.3m).

Papermaking equipment contributed profits of £20.3m (£18.1m), while the industrial division – comprising speciality tapes, filtration products and speciality materials – made £11.8m (£8.7m).

Mr Dunn said the figures reversed six years of sluggish performance in the paper sector.

Profits were also bolstered by maiden contributions from acquisitions, dominated by CSI, the Connecticut tapes manufacturer, and Renfrew, the Canadian speciality tapes business.

Strong demand values Cortworth at £72m

By Christopher Price

Strong demand for shares in Cortworth has led the specialist engineering company to be valued at £71.6m ($113m) at the top end of expectations, for its forthcoming flotation.

Cortworth was sold by Williams Holdings to its management for £40.3m, two years ago. The company and its advisers had been expecting a valuation of about £60m.

At the offer price of 150p, the holdings of the 11 executives who led the buy-out are worth £19m. Williams Holdings will retain a 19 per cent stake.

The amount the company hopes to raise has increased from £30m to £38.4m. Mr Bill McMurray, chief executive, said the funds would enable the company to clear all its debts and allow for extra capital investment.

The company is forecasting profits of £8.5m for the year to December 31, a rise of 33 per cent, on turnover of about £70m (£58.2m).

Lasmo sale in Canada

Lasmo, the independent oil company, is selling Lasmo Nova Scotia to PanCanadian Petroleum for C$60m before working capital adjustments.

A profit of about £25m is expected on disposal. The sale, which is subject to further due diligence, reflects the UK company's policy of withdrawing from mature fields.

The Canadian subsidiary operates the Cohasset and Panuke fields offshore Nova Scotia and a development well on the adjacent Balmoral satellite field is due for completion by the end of the year.

PowerGen rise outpaces rival

By David Wighton

PowerGen yesterday outpaced its larger rival, National Power, by reporting stronger profit and dividend growth and agreeing the terms of a £450m ($711m) disposal of two coal-fired power stations to Hanson's Eastern Group.

In September, PowerGen stole a march on National Power by launching an agreed £1.95bn bid for Midlands Electricity. Two weeks later National Power made a £2.8bn offer for Southern Electric.

The Office of Fair Trading yesterday sent its advice to Mr Ian Lang, the trade secretary, on whether the bids should be referred to the Monopolies and Mergers Commission. It is believed the industry regulator, Professor Stephen Littlechild, advised the OFT that it should recommend the bids be referred. But it is thought the DTI is more relaxed about a restructuring that would reverse the separation of generation and distribution.

PowerGen announced a 13 per cent increase in its interim profits to £133m and a better than expected 30 per cent jump in the dividend to 6.5p. That compares with National Power's underlying profit growth of 5 per cent and a 24 per cent dividend increase.

The disposal of the two power stations will dilute earnings per share by 2 to 3 per cent a year. But this would be more than offset by the boost from Midlands if the acquisition goes ahead.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Break for Border	6 mths to Sept 30	7.04	(3.46)	0.285	(0.259)	0.41†	(1.69)	0.5†	Dec 22	0.33	-	1.48
Cable and Wireless	6 mths to Sept 30	2,711	(2,535)	815♥	(567)	19.6†	(11.9)	3.08	Feb 29	2.83	-	8.05
Capital Radio	Yr to Sept 30	67.4	(51.7)	39.9♥	(22.1♥)	36.2	(22.8)	7	Jan 19	5	10.25	7.25
Christie Group	6 mths to Sept 30	8.4	(8.1)	0.033	(0.055)	0.14	(0.23)	nil	-	nil	-	nil
City of London PR§	6 mths to Sept 30	1.47	(1.36)	0.436	(0.394)	3.93	(3.71)	1.54	Jan 15	1.4	-	4.55
Heath (CE)	6 mths to Sept 30	82.1	(81.5)	10.3♥	(6.37)	3.3L	(5.9)	3	Jan 11	5	-	16
Lyles (S)	Yr to June 30	16.8	(16.9)	0.578L♠	(0.566)	4.08L	(10.37)	nil	-	2.5	nil	3.5
Oglesby & Butler ♣	6 mths to Sept 30	2.15	(1.92)	0.254	(0.158)	2.17	(1.33)	-	-	-	-	-
Perpetual	Yr to Sept 30	1,168	(1,522)	37.2	(35.4)	94.73	(92.38)	29	Jan 15	25	40	35
Portsmouth & Sund	6 mths to Sept 30	70.6	(60.9)	4.8♠	(5.39♠)	24.9	(28)	3.86	Dec 29	3.51	-	11.7
PowerGen	6 mths to Oct 1	1,104	(1,137)	133	(118)	13.4	(10.8)	6.5	Dec 20	5	-	15
Scapa	6 mths to Sept 30	248.2	(205.3)	27.7	(23)	7.9	(6.2)	1.79	Feb 2	1.7	-	6.14
600 Group	6 mths to Sept 30	67.5	(55.3)	4.83♥	(2.47♥)	7.1	(3.8)	0.75	Jan 12	0.5	-	2
Southnews	6 mths to Sept 30	13.2	(11.4)	1.97	(1.41)	8.48	(8.14)	1.76	Jan 15	1.35	-	4.45
Telegraph	9 mths to Sept 30	182.2	(190.2)	25.6♥	(33.9)	11.2	(17.7)	-	-	-	-	13
Trace Computers	Yr to May 31	19.7	(18.5)	0.482	(0.41)	2.55	(2.31)	1	Jan 12	0.95	1.55	1.5
Tring Intl	6 mths to Sept 30	12.9	(10.9)	1.45♠	(2.56)	2.13	(3.98)	1.42	Jan 31	1.42	-	4.26
Yates Wine Lodges	5 mths to Oct 1	29.2	(24.5)	3.16	(2.13♠)	5.8†	(4.2)	1.2	Feb 21	1	-	3
Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
General Cons	10 mths to Oct 31 ★	-	(-)	2.42	(3.36)	7.08	(9.47)	3‡	-	3	-	9.3
Glasgow Income	Yr to Sept 30	48.85	(45.29)	0.946	(0.894)	3.06	(2.93)	1	Feb 29	0.95	2.8	2.75
Govett Strategic	Yr to Sept 30	324.7	(271.1)	7.53	(6.66)	7.67	(6.78)	4.1	Jan 5	4.1	6.75	6.75
Invesco English	6 mths to Oct 5	137.17	(105.21)	0.345	(0.217)	0.71	(0.45)	0.4	Jan 12	0.4	-	0.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. †On increased capital. ♥After exceptional credit. ♠After exceptional charge. §USM stock. ♣Irish currency ★Comparatives for 1994 year. ‡Second interim; makes 6.9p to date.

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JOBS: The expanding world of executive search

Affairs of hearts and headhunters

It started in 1926 when Thorndike Deland established a business that charged a $200 retainer to find expert buyers for New York department stores.

Today, headhunting has become a $3.5bn to $4bn business worldwide and the chosen recruitment method of companies seeking senior managerial and boardroom talent.

Nearly 70 years on, it remains a curiously enigmatic business, populated by smart-suited practitioners often with qualifications and career records, not to mention earnings, just as impressive as those who find themselves targets for recruitment. But it is not a profession: it has little regulation and competition for fees can be fierce.

In spite of this, and perhaps because of their close relations with top executives, some of the leading practitioners have become close confidants of the people they have placed over the years.

"It's as good as a marriage, better in some cases. Executives often maintain very close relationships with their headhunters. The headhunter might be the most trusted source of the CEO," says Nancy Garrison-Jenn, a consultant who specialises in the search market.

She adds: "The consultant must be able to speak the language of the executive. The good ones are as talented as the chief executives they are placing."

That headhunting has come of age as a growing and successful international business was confirmed this week by an Economist Intelligence Unit report, written by Garrison-Jenn, which focused on its growth in Europe. The executive search industry in Europe is now worth $1bn, accounting for between 25 and 30 per cent of the worldwide market.

The biggest part of the European revenues – some $580m – is shared between the top 20 firms. The top 10 earned $400m in 1994. Preliminary revenue estimates predict worldwide growth of between 15 and 20 per cent on average this year, continuing the growth patterns of 1994.

Egon Zehnder continues to dominate the European market with revenues of $78.8m in 1994, well ahead of its nearest rival, Amrop, which drew in $44.5m. Russell Reynolds had the highest net revenue in the UK, some £10.7m netted from 300 assignments.

The report put much of this success down to the work of two of its partners, Matthew Wright in financial services and Rae Sedel in information technology.

The report also includes calculations of revenue per consultant, by country across Europe. In the UK, for example, Norman Broadbent generated $1.8m per consultant, covering 217 assignments among nine consultants.

Garrison-Jenn highlights the emergence of boutiques specialising in particular industry sectors or countries, but these firms tend not to have the sophisticated international databases which are helping the largest players consolidate themselves on a worldwide basis.

Increasing concerns for corporate governance, she says, have made non-executive recruitment an important growth area. She also notes increasing activity and movement into emerging markets, such as south-east Asia and eastern Europe.

The report also examines how firms are tackling disputes that can arise if a consultant shortlists a candidate from a client company. This can lead to accusations of the headhunter being in breach of confidence.

Garrison-Jenn writes that these "off limits" approaches have become a "real problem" in areas such as Hong Kong and other parts of Asia.

Many of the large international firms have now developed strict policies designed to protect client relationships. Heidrick & Struggles has a standard agreement signed before each assignment and distributed to all its offices worldwide so that all "off-limits" companies are indicated clearly.

Executive Search in Europe: Choosing and Using a Headhunter is published by the Economist Intelligence Unit, 15 Regent Street, London SW1Y 4LR, tel 0171 830 1007, price £149.

TOP 20 EXECUTIVE SEARCH FIRMS WORLDWIDE* 1994 ($m)

	Worldwide 1993 revenue	Worldwide 1994 revenue	1994/3 %change	Europe 1994 revenue	% of total
Korn/Ferry Carre/Orban	138.0	165.0	19.6	40.0	24.2
Heidrick & Struggles	109.5	135.0	23.2	41.5	30.7
Spencer Stuart	102.1	127.8	25.2	37.1	29.0
Russell Reynolds	93.0	127.0†	36.6†	32.0†	25.2†
Egon Zehnder	100.2	121.7	21.5	78.6	64.7
Amrop	74.2	96.0	29.4	44.5	46.3
Ward Howell	54.0	70.0	29.6	32.6	46.5
Berndtson Paul Ray	60.4	69.0	14.2	31.0	44.9
GKR Neumann	55.4	64.3	16.1	35.7	55.5
Norman Broadbent	41.5	44.3	6.7	27.4	61.8
Transearch	28.6	38.6	34.9	24.4	63.2
Hever Group	22.4	36.4	62.5	25.8	70.9
TASA	29.0	36.0†	24.1†	18.8†	52.2†
Accord Group	33.1	32.0	-3.0	23.0	71.9
Boyden	24.3	31.7	30.5	14.9	47.0
A.T. Kearney	23.9	28.5	19.2	6.0	21.0
Horton Group	21.4	25.0	16.8	15.0	60.0
IIC	20.0	24.2	21.0	16.8	69.4
Alliance Group	-	23.1	-	15.4	66.7
INESA	18.1	18.4	1.7	12.4	67.4

* Net revenue; executive search only † EIU estimate

Complaining Brits

On a recent trip to Poland, I spent some time with two separate groups of people working on the same project. One comprised mainly Americans and the other was mostly British. Their living conditions were spartan and the work was often repetitive. Each group had a cross section of ages drawn largely from the professions.

Personal prejudices, perhaps, led me to expect a chorus of complaints from the Americans, unused to such conditions, whereas the British could be expected to demonstrate some stiff upper lip and qualities of endurance.

In fact the opposite was the case. It was the Americans who stoically threw themselves into the work and the British who complained at every opportunity.

Herbert Greenberg, the chairman of Caliper, a US-based consultancy which specialises in employee recruitment and development advice, made some discoveries that challenged preconceptions about national traits when he studied the personality profiles of groups of British and American sales staff. He compared the profiles of 350 British sales staff with a much larger sample from the US.

Among many of the qualities he judged desirable in a salesperson – such as the drive to persuade, assertiveness, urgency and outwardness – he found broad similarities in personality make up.

But in several other traits, he found surprising differences. When Greenberg looked at which country's sales people were the most aggressive, he found that, contrary to his expectations, it was Britain's. When it came to compliance with rules, thoroughness and resilience, all qualities which he thought would most readily fit the British character, the Americans demonstrated a far greater abundance of all three.

The lesson of the study, he argues, is that companies should take care when transferring people from one culture to another to do the same job, even if they speak the same language. He says: "They should not assume they can do the job as well in one environment as they can in another."

Richard Donkin

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COMMODITIES AND AGRICULTURE

N American constraints drive out prospectors

By Kenneth Gooding, Mining Correspondent

Mining companies will be spending more money exploring in Africa than in the US this year as North American operators make good their threats to move their exploration efforts offshore because of the constraints they claim are put on their activities in their own countries.

Latin America remains the most favoured region and for the first time Canadian and US groups this year have allocated more cash for exploration in Latin America than for domestic exploration, according to the annual survey carried out by Metals Economics Group, a Canadian consultancy and research organisation.

The impact on US exploration is most marked. The US has fallen from third place in the 1994 survey to fifth this year in terms of planned mining exploration expenditure.

It has been overtaken by Africa where exploration spending will jump by 60 per cent this year, from about US$199m in 1994 to $320m. Spending on projects in the US will drop by more than 9 per cent, from $323m to $293.5m.

Latin America became the top region for exploration in 1994. This year mining companies have budgeted to spend $784.7m, up from $544m. Latin American exploration will account for more than 29 per cent of total exploration spending, says MEG.

It estimates total global non-ferrous exploration expenditures will be about $3.55bn, up by 21 per cent from the $2.93bn estimated for 1994. These figures do not include exploration spending by companies that do not publish their totals or by junior companies spending less than $3m a year on exploration.

Most of the 154 companies surveyed intend to increase exploration spending this year compared with 1994. MEG suggests that "besides healthy equity markets, increased funding has been largely driven by the rise in copper prices, stable gold prices and the opening of prospective ground in countries previously not friendly to offshore investment.

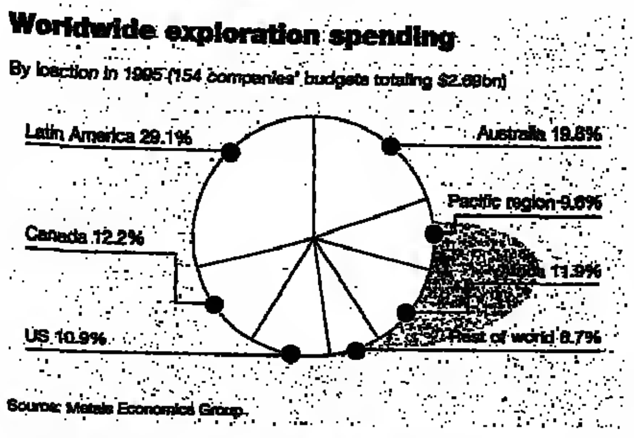
Australia maintains its second place among countries favoured for exploration and spending will increase from $431m to $518.5m while Canada climbs back from fifth to third place with spending up from $280m to $329m.

MEG says that 58.5 per cent of spending this year will be aimed at gold targets, the highest percentage since 1989. Some 31.8 per cent is exploration for base metals and 9.7 per cent for other materials.

Corporate Exploration Strategies: A Worldwide Analysis: US$8,000 from MEG, PO Box 2206, Halifax, Nova Scotia, B3J 3C4, Canada.

Worldwide exploration spending

By location in 1995 (154 companies' budgets totaling $2.69bn)



Source: Metals Economics Group.

RTZ announces discovery of big copper deposit in Spain

By Kenneth Gooding

A big copper discovery has been made in Spain by RTZ Corporation, the world's biggest mining company.

Mr Leigh Clifford, the group's mining director, suggested yesterday that the deposit, named Las Cruces, was the best discovery in the Iberian region since Neves Corvo in southern Portugal was found in the early 1980s.

Neves Corvo, in which RTZ has a 49 per cent interest and was once described as "the most important mining project in Europe since Roman times", produces more than 100,000 tonnes of copper a year.

Mr Clifford said Las Cruces might have 10m to 15m tonnes of material containing an average of 6 per cent copper and other valuable metals. But he cautioned: "We have drilled 50 holes but it takes a lot more to make any definite statements".

First rough estimates of the potential of the deposit, located north of Seville, would be published next year.

Mr Clifford revealed the Spanish discovery at an upbeat presentation to the UK Association of Mining Analysts in London at which he brushed aside concerns about the large number of copper projects scheduled to come on stream in the next few years.

"The future for copper is rosy and demand will rise," he insisted, saying that consumption would be particularly strong in developing countries. He said there would be times when copper price would be high and times of over-supply but RTZ was making sure its operations could compete in the long term.

He cited RTZ's wholly-owned copper mine at Bingham Canyon in Utah, where production costs last year were about 40 cents a pound ($882 a tonne) but would be "closer to 20 cents" once the new copper smelter there was fully on stream. Similarly, the Grasberg mine in Irian Jaya, Indonesia, in which RTZ has a minority stake, had costs of about 45 to 50 cents a pound but these would also be "in the mid-to-lower 20 cents" range after the present expansion.

EU banana regime defence pleases Caribbean growers

Canute James reports on a 'stout and comforting' response to US criticism of import preference

The trans-Atlantic row over the European Union's controversial banana import regime has moved to the source of the dispute. The European Union, through its office in Barbados, has issued a defence of the import regime, following an earlier statement from the US ambassador to the eastern Caribbean, criticising the preferences for Caribbean exporters.

The exchange of positions has pleased governments of the banana exporting countries in the region. They have found in the EU statement "as stout and as comforting a defence as could be expected" of the banana exporters' position, according to a government official in St Lucia, one of the leading producers in the region.

Some Caribbean governments had feared that consistent US pressure, and the US decision to put the banana dispute to the World Trade Organisation, would have forced the EU into changes that would have adversely affected the exporters' preferential access to Europe.

The first salvo in the latest round was fired by Ms Jeanette Hyde, the Barbados-based US ambassador to the eastern Caribbean. In a statement updating the US position in the dispute, she said there had been widespread misunderstanding of the US position on Caribbean banana exports to the European Union.

"The US government understands the significance of the banana industry to the nations of the Caribbean, and the US supports the continuation of the current tariff preferences that the EU grants to Caribbean nations, and others, under the Lomé convention [a trade and aid agreement with former colonies of EU members]," Ms Hyde said.

"Our complaint regarding bananas is not with any Caribbean nation; it is with the European Union. We well understand and appreciate the importance of banana exports to the economies of the Windward Islands, and to the political and social climate of these nations."

Washington's complaint against the EU was that it had implemented a licensing system that had taken away business from US companies that had marketed South and Central American bananas in Europe for many years, and had given it to a few EU companies, the ambassador said.

That had cut the US companies out of almost half of the trade they had developed over several decades, and the EU had maintained its "unfair" system even after a Gatt dispute settlement panel recognised that it was inconsistent with fair trade rules, Ms Hyde argued.

"There are international studies that indicate there are better ways to assist Caribbean banana producers than the current EU banana regime. The question is: Why maintain a system that favours the EU companies - the same firms that have failed to help Caribbean banana growers become more competitive?"

The EU could and should adopt a preferential banana import regime for the Caribbean that was consistent with international trade rules, she contended, and one that "promotes the interest of all countries engaged in the banana trade, including those in the Caribbean".

The response from the EU said that while it welcomed the US's appreciation of the importance of bananas to the economic and social stability of the countries of the Caribbean, "the US, in the same breath, attacks the very means which makes the marketing of these bananas possible".

"Given the lack of viable alternative economic activities open to the Caribbean islands, banana production is an ideal choice, from an economic and social point of view, and unlike any other alternative crop, can recover to full productive capacity after just nine months if hit by one of the region's frequent hurricanes," said the EU.

"The banana industry provides employment for approximately half of the working population, is suited to family production and accounts for over half of export earnings. Moreover, production is largely under conditions which guarantee employees minimum social standards."

Despite this, the Caribbean banana industry is less competitive, and this has led the EU to support traditional banana suppliers in the African, Caribbean and Pacific (ACP) group.

Efforts are being made to diversify agriculture in the Windward Islands to reduce the reliance on bananas. The EU statement said, however, that alternatives were not easy to find. It was "essential" that the region's banana industry be supported and made more efficient. In doing this, the EU was trying to ensure the long-term economic stability of the Caribbean.

"For all that the US claims to understand the situation of Caribbean banana producers, the main preoccupation seems to be with expanding the EU market share of certain US firms rather than with ensuring Caribbean bananas a market outlet which is vital to the continuation of the banana industry and to the region's economic survival," it said.

"The US claims that the EU licensing system has taken market share away from US firms to the advantage of EU firms. This is not the case. The licensing system was designed to favour any operator, of any nationality, who marketed ACP bananas in the EU in order to ensure that these relatively more expensive bananas continued to find an outlet on the new EU market free from internal barriers.

"Official statistics show that imports of dollar bananas [primarily by US companies] have actually maintained and even increased their share of the EU market since the new banana regime was introduced.

"Far from disadvantaging US firms, the introduction of the EU banana regime has actually opened up new, previously protected European markets, as is demonstrated by the fact that a wider choice of bananas is now available on EU markets and dollar bananas are commonly sold in all Member States, including those previously closed to dollar imports."

Bigger world sugar surplus forecast

By Deborah Hargreaves

World sugar production should exceed 120m tonnes for the first time ever in the 1995-96 crop year, according to a report by Czarnikow, the London-based commodity broker. The record output will push the market into surplus, contrasting starkly with current tight supply.

Delays in getting this year's sugar crop to market have kept prices high. Czarnikow points out that market attention has been focused upon the tight supply situation for prompt delivery, especially for quality white sugars.

The International Sugar Organisation cites white sugar prices of 18 cents a pound in early November, although the market has since slipped slightly to 17 cents.

Traders have ignored the impending surplus, but when this begins to bite, current high prices are likely to ease. The ISO believes both raw and white sugar prices will be under pressure in the first quarter of next year. "It will not be surprising if raw prices dip below 10 cents a pound and white sugar prices below 14 cents a pound," the organisation says in its latest report.

Record crops in important producing countries such as India are expected to push this year's surplus to 2.65m tonnes, according to the ISO.

Indian production could reach 16.5mn tonnes, Czarnikow estimates, while stressing the wide variations in forecasts.

The broker believes that the impact of the Indian crop on the world market could be muted, however, by a cautious export policy introduced by the Indian government, which recently came under criticism for the implementation of its import policy. This should lead to a build up of stocks in India.

Czarnikow records a lower estimate for sugar beet output in the European Union than it reported in August, but almost all other main producers are expected to show large increases in production.

COMMODOITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1633-4	1670-1
Previous	1626-7	1663-4
High/low	1629/1627	1682/1660
AM Official	1629-30	1666.5-67.0
Kerb close		1681-2
Open int.	223,457	
Total daily turnover	54,304	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1370-80	1410-15
Previous	1365-75	1405-10
High/low		1410/1405
AM Official	1375-85	1410-20
Kerb close		1410-20
Open int.	3,511	
Total daily turnover	2,693	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	690-2	684-5
Previous	676-7	673-4
High/low	682/680	692/673
AM Official	681.5-82	677-78
Kerb close		692-3
Open int.	31,748	
Total daily turnover	7,563	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	8240-50	8360-70
Previous	8235-45	8355-60
High/low	8290	8450/8245
AM Official	8290-300	8380-400
Kerb close		8420-30
Open int.	43,508	
Total daily turnover	15,677	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6280-90	6320-30
Previous	6275-85	6315-20
High/low		6350/6270
AM Official	6285-90	6320-25
Kerb close		6330-40
Open int.	17,059	
Total daily turnover	4,468	

■ ZINC, special high grade ($ per tonne) [illegible]

■ COPPER, grade A ($ per tonne) [illegible]

■ LME AM Official £/$ rate: 1.5605 [illegible]

■ HIGH GRADE COPPER (COMEX) [illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild) [illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.) [illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.) [illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.) [illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.) [illegible]

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel) [illegible]

■ CRUDE OIL IPE ($/barrel) [illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.) [illegible]

■ GAS OIL IPE ($/tonne) [illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu) [illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.) [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne) [illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel) [illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel) [illegible]

■ BARLEY LCE (£ per tonne) [illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel) [illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb) [illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton) [illegible]

■ POTATOES LCE (£/tonne) [illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point) [illegible]

FUTURES DATA

All futures data supplied by CMS.

Wool

[illegible]

SOFTS

■ COCOA LCE (£/tonne) [illegible]

■ COCOA CSCE (10 tonnes; $/tonnes) [illegible]

■ COCOA (ICCO) (SDR's/tonne) [illegible]

■ COFFEE LCE ($/tonne) [illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs) [illegible]

■ COFFEE (ICO) (US cents/pound) [illegible]

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs) [illegible]

■ WHITE SUGAR LCE ($/tonne) [illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs) [illegible]

■ COTTON NYCE (50,000lbs; cents/lbs) [illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs) [illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100) [illegible]

■ CRB Futures (Base: 1967=100) [illegible]

■ GSCI Spot (Base: 1970=100) [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs) [illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs) [illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs) [illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME [illegible]

■ COPPER (Grade A) LME [illegible]

■ COFFEE LCE [illegible]

■ COCOA LCE [illegible]

■ BRENT CRUDE IPE [illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jan) +or-

		+or-
Dubai	$15.85-5.62w	+0.11
Brent Blend (dated)	$16.77-6.81	+0.14
Brent Blend (Jan)	$16.59-6.61	+0.145
W.T.I. (1pm est)	$17.74-7.79w	+0.12

■ OIL PRODUCTS NWE prompt delivery CIF (tonne) [illegible]

■ OTHER [illegible]

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ACROSS

1 Old-fashioned, like Murdoch's money (6,3,5)
10 Obesity and alcohol are causing death (5)
11 Protection for calf that grew lamer, possibly (3-6)
12 I sound good, you sound false (7)
13 Give the reason – former partner not good-looking (7)
14 Portray student's affected way of speaking (5)
16 Suggest that you (say) had a meal while transgressing? (9)
19 Conceal nothing about bad move for DIY watchers (4,5)
20 Shed tears the Queen's not drunk (5)
22 Adult gives directions in set (5,2)
25 Artful sort of body? (7)
27 Very poor rendering of tutti in half-deserted surroundings (9)
28 Inclined face downwards? (5)
29 Day security firm perpetrated fraud? (6,8)

DOWN

2 Medium production of City chief at alms distribution (9)
3 Home, one that's nearly dark (5)
4 Catch without difficulty, then prison for dumb blonde? (5,4)
5 The seat of government is silver in colour (5)
6 Outward adornments of poacher's bag? (9)
7 Mother pursued by bachelor, the snake! (5)
8 Funny way to the mountains? (7)
9 To be disagreeable, where you go when you walk the plank (6)
15 Prong on which to hold up a type of orange from Syria? (9)
17 Holy man to be tyrant – latest news (4,5)
18 Wanting to go far? Give scope for bills (9)
19 Going off mother in Aswan? (4,3)
21 Chair it's crazy to go off (6)
23 Welles the golden boy? (5)
24 Exactly what fruit sounds like (5)
26 Flower raised under plate at home (5)

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INTERNATIONAL CAPITAL MARKETS

Treasuries soar on rate cut expectations

By Lisa Bransten in New York and Antonia Sharpe in London

US Treasury prices soared in early trading yesterday amid optimism that the Congress and the president were making progress in their battle over how to balance the budget, and hopes that weak economic figures would spur the Federal Reserve to lower interest rates next month.

Near midday, the benchmark 30-year Treasury was up $1¼ at 108 19/32, to yield 6.214 per cent, the lowest yield since January 1994. At the short end, the two-year note gained $¼ to $100 5/32, to yield 5.435 per cent.

Bonds opened stronger as economic weakness in Japan sent Asian investors searching for higher yields, and traders moved money out of safe havens in Germany, according to Mr Richard Gilhooly, of Paribas Capital Markets in New York.

Traders interpreted President Bill Clinton's decision not to travel to Japan next week as a sign that he and the Congress might be close to passing a stop-gap measure to open the government until a budget package is agreed.

GOVERNMENT BONDS

Many on Wall Street remain optimistic that President Clinton and the Congress will be able to agree to a deficit-cutting budget package quickly, giving the Federal Reserve impetus to lower interest rates before year-end.

Figures from the Federal Reserve Bank of Philadelphia showing weakness in November manufacturing activity also spurred hopes for an easing of monetary policy. Although the Philly Fed's index of business activity in November remained positive, it fell from 25.5 in October to 7.9.

Bonds also drew support as the dollar strengthened against the yen and the D-Mark. In early trading, the US currency was changing hands for Y102.23 and DM1.4099, compared with Y101.63 and DM1.4067 late on Wednesday.

■ UK government bonds rose almost a full point yesterday on hopes of an early cut in base rates following the publication of lower-than-expected inflation data for October and better-than expected PSBR numbers.

"Rate cuts are on the way," said Mr Simon Briscoe, UK economist at Nikko Europe. Dealers said short sterling futures were discounting at least a quarter-point cut in the base rate, currently at 6¾ per cent, by March. The data fuelled a rally in the futures market, with the December long gilt future reaching a contract high of 108 31/32 at one stage. In the late afternoon, the future was trading at 108⅜, up ⅞ point on the day in volume of 76,543 contracts.

The rally in gilts caused the yield spread over German bunds to narrow from about 165 basis points to about 152 basis points.

■ The Bank of France's decision to cut the important intervention rate from 5.0 per cent to 4.80 per cent, the first reduction since July last year, sparked a rally in French government bonds yesterday.

Mr Julian Jessop, international economist at HSBC Markets, said he expected the central bank to take every opportunity to cut rates following the government's measures to reduce the social security deficit. He said there was room for another 60 basis points off the intervention rate, even without further easing from the Bundesbank.

Mr Jessop noted that the French used to maintain a spread of 20 basis points between its intervention rate and the German repo rate but that the spread was now 82 basis points.

On the Matif, the December 10-year government bond future rose 0.32 point to 119.12, off a day's high of 119.26, in volume of 212,439 contracts.

■ Bunds were dragged down by disappointment that the Bundesbank did not lower its official interest rates and by news Mr Oskar Lafontaine had been elected president of Germany's opposition Social Democratic Party. Mr Lafontaine is seen as a stronger candidate for Chancellor than his predecessor Mr Rndolf Scharping. On Liffe, the December bund future fell 0.12 point to 97.56 in volume of 142,267 contracts.

Greece reveals plans for debt management office

By Kerin Hope in Athens

Greece is to set up a debt management office for domestic and foreign borrowing under a new law aimed at modernising treasury operations at the finance ministry and public sector enterprises.

The debt management office would assume responsibility for organising domestic and foreign borrowing from the central bank, which currently arranges international loan and bond issues and holds auctions of treasury bills and floating-rate notes on behalf of the finance ministry.

Reducing the cost of financing public debt, equivalent to 114 per cent of gross domestic product, has become a priority as Greece steps up its efforts to meet the Maastricht targets for taking part in European monetary union.

The finance ministry said the new office, due to start operating next year, would "bring more flexibility in debt financing for both domestic and foreign debt, as well as improving the government's cash management".

Government securities are used to finance about Dr17,000bn of domestic debt, mostly through monthly issues of short-term treasury bills and floating-rate notes.

The finance ministry is trying to reduce borrowing costs by gradually restructuring the debt, substituting longer-term fixed-rate issues for treasury bills and financing a larger portion of foreign debt through drachma-denominated bonds.

A medium-term note programme, launched last week, is also part of Greece's effort to bring debt management in line with EU practice.

Greece will initially borrow $2bn under the programme arranged by Lehman Brothers, issuing fixed-rate paper and floating-rate notes and making private placements with international institutional investors in several European currencies.

The finance ministry expects to cover a substantial part of next year's foreign borrowing requirement, estimated at about $3bn, through the MTN programme.

Appetite for Greek debt is strong because of yields that have ranged this year from 125 to 165 basis points above Libor. However, last week's DM700m issue, the first arranged under the MTN programme, was priced to yield only 65 basis points above the three-month Libor rate.

The five-year floating-rate note was sold to banks rather than institutional investors, but as one official put it: "It was successful in establishing a new pricing level for Greek debt."

Telecom Argentina enjoys good demand

By Conner Middelmann

The eurolira sector had a busy day yesterday, with two large offerings, one supranational and one by an emerging-market borrower.

INTERNATIONAL BONDS

A L250m issue of two-year bonds for Telecom Argentina met with such strong demand that the amount was increased to L300bn within an hour of launch. According to lead manager J. P. Morgan, about 85 per cent of the issue was sold to Italian investors, both institutional and retail.

Not only does Italy have strong historical links with Argentina but the Italian telecommunications monoply Stet also bolds a 32.5 per cent share in Argentina Telecom. In addition, investors were attracted by the high yields of what is only the third emerging-market bond to have come to the lira market.

A L400bn issue of 10-year bonds for the European Investment Bank – the only triple A rated lira bonds available with a 2005 maturity – also saw good demand, said joint leads HSBC and San Paolo.

A syndicate official explained that the recent steepening of the lira yield curve was prompting investors to shift into longer maturities to pick up yield.

The dormant Greek drachma sector was reawakened by the International Financing Corporation's latest issue, Dr40bn of three-year floating-rate notes, paying a conpon of one-month Athibid less 40 basis points.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Federal Home Loan Mtg.Crp.(s)	100	6.10#	100.00	Nov.2000	0.20	-	Lehman Brothers Intl.
D-MARKS							
Frankfurter Hypo.(b,s)	1bn	5.75	101.02	Jun.2002	2.25	-	Bayernhypo/D'ache/Dresdner
CS First Boston(s)	150	7.00	100.15R	Apr.2004	0.45R	+78(6¼%-04)	CSFB-Effectenbank
YEN							
Bayerische Vereinsbank★	50bn	2.15#	100.20	Dec.2001	0.275	-	Sanwa International
International Finance Corp.★	20bn	(c)	100.50	Nov.2025	0.50	-	IBJ International
SWISS FRANCS							
SNCF	250	3.75	103.30	Dec.2002	2.50	-	Credit Suisse
Dresdner Finance	200	4.00	103.65	Jan.2004	2.625	-	Credit Suisse/ Dresdner
Marutomi Group Co.(d)★ф	55	0.50	100.00	Dec.1999	1.625	-	Nomura Bank(Switz.)
ITALIAN LIRE							
European Investment Bank	400bn	10.875	101.26	Dec.2005	1.875	-	HSBC/ San Paolo, Turin
Telecom Argentina	300bn	14.00	99.77R	Dec.1997	0.625R	-	BCI/ JP Morgan Securities
AUSTRALIAN DOLLARS							
World Bank★	150	6.00	94.575	Dec.1998	1.00	-	Kankaku (Europe)
DANISH KRONER							
OSL Bank	500	zero	62.90	Dec.2002	1.375	-	Bank Brussels Lambert
PESETAS							
Helaba Finance	15bn	10.10	101.31	Dec.2000	1.625	-	Banco Central Hispano
DRACHMAS							
International Finance Corp.‡	40bn	(e)	100.10	Dec.1998	0.10	-	Natl.Mtg.Bank of Greece

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating rate note. фWith equity warrants. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable from 27/11/98 at par. b) Oeffentliche pfandbrief. Plus 19 days accrued. 1st coupon: 7 months. c) 6% in A$ or 5.55% in DM. d) Fixing: 21/11/95. Revision of exercise price, effective 22/12/97, max 20%. e) 1-mth Athibid -40bp. s) Short 1st coupon.

In the sterling sector, outstanding bonds issued by British Gas weakened slightly after Standard & Poor's, the international rating agency, cut the company's long-term credit rating by two notches to AA- from AA+ with a negative outlook. Yield spreads on British Gas bonds had already widened by 15-20 basis points since Moody's downgrading of the company in September, and grew by another two to three basis points yesterday.

Inkombank in talks to sell 20% stake to western bank

By John Thornhill in Moscow

Inkombank, one of Russia's most powerful banking groups, plans to strengthen its capital base by selling as much as 20 per cent of its shares to a western commercial bank.

The Russian bank said yesterday it was in talks with several possible partners but would provide no further details.

Mr Vladimir Vinogradov, Inkombank's presidant, said the bank would also look to issne American depositary receipts (ADRs) and eurobonds to raise its profile among international investors. Inkombank is celebrating its seventh anniversary, making it one of the oldest of Russia's new wave of commercial banks.

Russian companies have found it hard to raise capital on the local market given tha lack of liquidity and have been seeking to establish a presence on international capital markets. Russian financiers predict as many as 50 Russian companies could seek to issue similar ADRs by the end of 1996.

Inkombank, probably the fifth biggest Russian bank in terms of assets, intends next month to launch a $90m level-three ADR programme backed by existing shares. The hank then plans to raise fresh capital via a more sophisticated ADR programme next year.

The hank, which has recently established an investment banking arm, is to use the financial and regulatory experience it gains from issuing ADRs to help clients do the same.

It will also issue a $100m eurobond to extend its borrowing profile.

Inkombank caused some controversy in Moscow this year after it stealthily acquired control of the Babayev confectionery factory.

However, complaints from minority shareholders that they were being short-changed prompted Inkombank to offer to buy them out at a fair market price.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		7.500	07/05	93.3600	+0.560	8.52	8.62	8.50
Austria		6.875	06/05	100.7200	+0.020	6.78	8.79	6.99
Belgium		6.500	03/05	98.0700	+0.110	6.78	6.82	7.15
Canada *		8.750	12/05	108.4500	+0.410	7.53	7.62	7.61
Denmark		7.000	12/04	96.3400	-0.060	7.57	7.65	7.99
France	BTAN	7.750	04/00	108.1250	+0.500	8.17	6.33	6.87
	OAT	7.750	10/05	105.4600	+0.140	6.97	7.12	7.61
Germany Bund		6.500	10/05	101.3000	-0.090	6.32	6.37	6.58
Ireland		6.250	10/04	90.7000	+0.700	7.73	7.89	8.26
Italy		10.500	09/05	95.5000	+0.300	11.27†	11.33	11.67
Japan	No 129	6.400	03/00	120.0040	-0.350	1.48	1.45	1.58
	No 174	4.600	09/04	112.7770	-0.650	2.80	2.74	2.71
Netherlands		7.000	06/05	104.7900	-0.060	6.31	6.37	6.65
Portugal		11.875	02/05	106.1000	+0.340	10.78	11.01	11.29
Spain		10.150	01/06	95.5600	-0.240	10.57	10.15	10.98
Sweden		6.000	02/05	80.8460	+0.162	9.18	9.17	9.54
UK Gilts		8.000	12/00	103-27	+16/32	7.08	7.23	7.57
		8.500	12/05	105-18	+24/32	7.69	7.84	8.13
		8.000	10/08	109-12	+26/32	7.83	7.87	8.23
US Treasury *		6.500	06/05	104-10	+12/32	5.61	5.84	6.06
		6.875	08/25	106-26	+31/32	6.22	6.28	6.42
ECU (French Govt)		7.500	04/05	100.6300	+0.140	7.39	7.49	7.90

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest — Treasury Bills and Bond Yields

		One month	5.46	Two year	5.49
Prime rate	8¾	Two month	5.51	Three year	5.56
Broker loan rate	7¼	Three month	5.53	Five year	5.70
Fed funds	5 11/16	Six month	5.51	10-year	5.95
Fed funds at intervention	-	One year	5.43	30-year	6.24

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	119.18	119.12	+0.32	119.26	118.92	207,929	115,528
Mar	118.26	118.26	+0.24	118.44	118.18	5,221	12,888
Jun	118.52	118.52	+0.28	118.68	118.42	254	3,056

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
115	-	-	-	0.01	0.42	-
116	3.08	2.85	-	0.02	0.57	-
117	2.12	2.13	-	0.05	0.90	-
118	0.56	1.46	-	0.16	1.29	-
119	0.18	1.04	-	0.47	-	-

Est. vol. total, Calls 49,650 Puts 29,683. Previous day's open int., Calls 164,491 Puts 184,902.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.68	97.56	-0.12	97.79	97.40	150472	208004
Mar	97.12	96.95	-0.13	97.17	96.87	5202	14533

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
9750	0.27	0.34	0.60	0.78	0.21	0.89	1.15	1.33
9800	0.08	0.20	0.42	0.59	0.52	1.25	1.47	1.64
9850	0.03	0.11	0.28	0.43	0.97	1.66	1.84	1.98

Est. vol. total, Calls 21284 Puts 13818. Previous day's open int., Calls 221448 Puts 211355

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	103.75	103.71	+0.21	103.97	103.53	42658	41873
Mar	103.35	103.33	+0.22	103.50	103.20	321	2757

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
10350	0.53	1.93	0.32	2.10
10400	0.29	1.70	0.58	2.37
10450	0.14	1.49	0.93	2.66

Est. vol. total, Calls 2467 Puts 1727. Previous day's open int., Calls 30742 Puts 48575

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	90.96	90.60	-0.22	91.14	90.47	65,345	37,168
Mar	-	90.47	-	-	90.50	277	2,512

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	108-02	108-28	+0-27	109-00	107-27	79486	105873
Mar	108-02	108-06	+0-27	108-10	107-30	55	5645

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
108	1-03	1-12	1-41	1-59	0-15	1-00	1-29	1-47
109	0-27	0-47	1-12	1-28	0-39	1-35	2-00	2-16
110	0-09	0-27	0-53	1-03	1-21	2-15	2-41	2-55

Est. vol. total, Calls 5344 Puts 2508. Previous day's open int., Calls 37855 Puts 34436

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	88.90	88.68	+0.12	89.04	88.78	1,417	9,030

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	117-07	117-20	+0-13	117-27	117-07	322,643	379,852
Mar	117-00	117-09	+0-13	117-15	117-00	21,265	53,956
Jun	116-30	116-26	+0-14	117-00	116-25	1,176	10,877

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	121.35			121.63	121.30	4168	0
Mar	119.97			120.30	119.97	1775	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu Nov 16	Day's change %	Wed Nov 15	Accrued interest	xd adj. ytd		Low coupon yield Nov 16	Nov 15	Yr. ago	Medium coupon yield Nov 16	Nov 15	Yr. ago	High coupon yield Nov 16	Nov 15	Yr. ago
1 Up to 5 years (22)	122.47	+0.25	122.16	1.87	9.72	5 yrs	7.20	7.30	8.47	7.20	7.31	8.54	7.28	7.39	8.65
2 5-15 years (21)	147.38	+0.66	146.41	1.18	11.73	15 yrs	7.84	7.94	8.49	7.89	7.99	8.60	7.96	8.05	8.65
3 Over 15 years (8)	164.66	+0.99	163.06	1.89	12.13	20 yrs	7.90	8.00	8.46	7.93	8.03	8.60	7.99	8.03	8.74
4 Irredeemables (6)	187.48	+0.78	186.03	0.86	13.47	Irred.†	8.00	8.06	8.31						
5 All stocks (58)	142.96	+0.60	142.13	1.57	11.16										

Index-linked	Thu Nov 16	Day's change %	Wed Nov 15	Accrued interest	xd adj. ytd		Inflation 5% Nov 16	Nov 15	Yr. ago	Inflation 10% Nov 16	Nov 15	Yr. ago
6 Up to 5 years (1)	194.80	+0.04	194.52	0.51	8.37	Up to 5 yrs	2.71	3.12	3.93	1.49	2.05	2.67
7 Over 5 years (11)	187.94	+0.20	187.57	1.10	4.45	Over 5 yrs	3.54	3.63	3.65	3.33	3.44	3.65
8 All stocks (12)	187.85	+0.16	187.59	1.09	4.54							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Nov 16	Nov 15	Nov 14	Nov 13	Nov 10	Yr ago	High*	Low*
Govt. Secs. (UK)	94.82	94.33	94.35	94.07	93.94	91.52	95.51	90.22
Fixed Interest	113.09	112.82	112.76	112.58	112.82	108.34	114.66	108.77

* for 1995. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Nov 15	Nov 14	Nov 13	Nov 10	Nov 8
Gilt Edged bargains	108.5	79.5	72.7	81.7	85.4
5-day average	85.6	79.7	79.8	79.6	82.3

UK GILTS PRICES

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on November 16

[illegible]

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CURRENCIES AND MONEY

MARKETS REPORT

Dollar rallies on favourable trend in Japan trade

By Philip Gawith

Confirmation that the Japanese trade surplus is in a declining trend was sufficient yesterday to give the dollar a boost, while the yen weakened across the board.

The fall of over 40 per cent in both the overall trade surplus, and the bilateral surplus with the US, was seen as confirmation that one of the main factors depressing the dollar over the past two years may be in the process of being removed.

The dollar closed over a yen firmer in London at Y102.22, from Y101.035. Against the D-Mark it finished at DM1.4095, from DM1.4024.

The firmer dollar helped sterling recover from the historic trade weighted low reached on Wednesday. It closed at DM2.1935, from DM2.1847. Against the dollar it finished at $1.5563, from $1.5579. The trade weighted index finished at 82.7, from 82.6.

The focus in Europe was the decision by the Bank of France to cut the French intervention rate to 4.8 per cent, from 5 per cent - the first cut since July 1994. This was taken to be a reward for the fiscally stringent reform of the French welfare system announced by the government. The Bank of France described it as a vote of confidence in the franc, which finished at FFr3.447 against the D-Mark, from FFr3.454.

The D-Mark was generally weaker, in the face of the stronger dollar, although it made significant gains against the weaker yen, finishing at Y72.52, from Y72.04.

The Dutch central bank also trimmed interest rates, with the secured loans rate cut to 3.25 per cent, from 3.5 per cent previously.

■ Pound in New York

Nov 16	—Latest—	— Prev. close —
£ spot	1.5555	1.5575
1 mth	1.5543	1.5563
3 mth	1.5494	1.5542
1 yr	1.5424	1.5430

■ The promising trend in the US-Japan trade figures, coming at a time when senior US trade officials are in Japan, helped set the tone for currency markets.

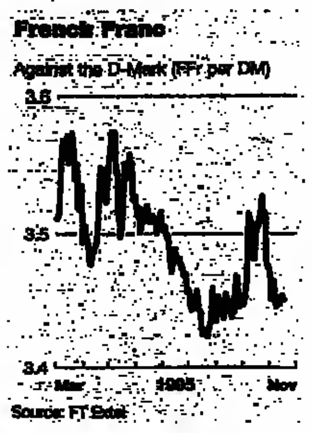
Mr Philippa Jordan, senior vice-president at Daiwa Securities in New York, said: "There is so much at stake that I still believe the Bank of Japan won't let the dollar fall below Y98. They are reflating the economy and can't afford a crisis now, nor can the US."

These developments overshadowed the unresolved US budget wrangle in the US. Mr Jordan predicted that the budget squabble had some way to run yet, with the stakes very high and positions increasingly polarised, personalised, and entrenched.

He said the market believed that if Mr Gingrich prevailed, this would be good for markets and the dollar, with the reverse applying if Mr Clinton won the argument. "The dollar is hostage to this conflict and can be seriously affected by the short term strategies of the Clinton Administration," said Mr Jordan.

French Franc

Against the D-Mark (FFr per DM)



Source: FT Extel

He said the Administration was anxious to convince markets that Mr Gingrich's policies were harmful, and was prepared to use language and arguments which made this self-fulfilling. He referred to Mr Rubin's statement last week that the budget conflict, and threat of default, jeopardised "the full faith and credit" of the US government. Mr Jordan said this was tantamount to a finance minister damning his own capital markets.

■ Sterling's travails appear so far to be a fairly parochial affair. One currency economist who has recently canvassed a broad range of long-term US investors, as well as some Edinburgh based international fund managers, said that sterling had barely warranted a mention.

Trouble, however, may still lie ahead. "Sterling is rapidly beginning to look like an accident waiting to happen," said Mr Jeremy Hawkins, chief economist at the Bank of America in London. He said the sharper than expected drop in October retail price inflation had opened the door for a rate cut, "sooner rather than later".

Mr Hawkins said the combination of lower interest rates, a tax stimulus in the November 29 budget, and political uncertainty could well see sterling revisit its historic low of DM2.1755 against the D-Mark.

Rumours also continue to emanate from the futures pits about Tory defections to the Labour party. "This underlines how sensitive the City is to anything that suggests the government might not be around for much longer," said Mr Hawkins.

■ The Bank of England provided £892m assistance towards clearing a £900m market shortage. The bullish mood on interest rates was reflected in three month LIBOR falling to 6⅝ per cent, from 6$\frac{11}{16}$ per cent.

■ OTHER CURRENCIES

Nov 16	£	$
Czech Rp	40.7542 - 40.7959	26.1950 - 26.2050
Hungary	206.315 - 206.525	132.610 - 132.660
Iran	4670.40 - 4667.40	3000.00 - 3000.00
Kuwait	0.4663 - 0.4667	0.2997 - 0.2998
Poland	3.8358 - 3.8414	2.4656 - 2.4675
Russia	7091.23 - 7091.34	4555.00 - 4558.00
U.A.E.	5.7143 - 5.7183	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Nov 16		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.4364	+0.0618	259 - 469	15.4541	15.3967	15.406	2.4	15.3474	2.3	-	-	107.1
Belgium	(BFr)	45.1327	+0.2184	871 - 783	45.2080	45.0080	45.0277	2.8	44.8327	2.7	44.0477	2.4	109.7
Denmark	(DKr)	8.5029	+0.0259	978 - 079	8.5159	8.4899	8.4953	1.1	8.4787	1.1	8.4162	1.0	110.2
Finland	(FM)	6.5483	+0.0085	403 - 562	6.5750	6.5403	6.5439	0.8	6.5358	0.8	-	-	86.9
France	(FFr)	7.5617	+0.010	581 - 653	7.5748	7.5442	7.5583	0.6	7.5706	-0.5	7.5673	-0.1	111.0

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 16		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	9.9187	+0.0499	151 - 222	9.9275	9.8860	9.8837	1.8	9.8236	1.8	9.7143	1.6	107.2
Belgium	(BFr)	29.0000	+0.17	800 - 200	29.0400	28.8720	28.788	1.7	28.71	1.7	28.41	1.5	109.4
Denmark	(DKr)	5.4635	+0.0222	620 - 650	5.4687	5.4485	5.4421	-0.2	5.4378	0.3	5.4473	-0.1	109.3
Finland	(FM)	4.2076	+0.0098	036 - 113	4.2175	4.1996	4.1974	0.1	4.1963	0.1	4.1918	0.1	88.0
France	(FFr)	4.8588	+0.0153	580 - 595	4.8615	4.8432	4.8448	-0.3	4.8472	-0.3	4.8598	-0.3	110.5

CROSS RATES AND DERIVATIVES

UK INTEREST RATES

WORLD INTEREST RATES

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.50	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williman Secs	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	United Bank of Kuwait	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Unity Trust Bank Plc	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Western Trust	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Whiteaway Laidlaw	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75	Yorkshire Bank	6.75
Barclays Bank	6.75	C. Hoare & Co	6.75		
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75		
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	* Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

● Members of London Investment Banking Association

* In administration

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	+ or -	1995 High	1995 low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Pf		50½xd	—	98	50¼	8.31	19.9	-
Cater Allen	♣v	495	—	525	410	191.8	7.8	7.0
Close Bros	♣qv□	320	—	*340½	218¼	394.3	3.4	14.4
Gerrard & Nat	♣v	461xd	-1	480	395	225.0	6.1	14.6
Hambros	v□	209	+3	253	180	383.1	4.8	-
7½pc Cv Pf		97	—	112	94	125.0	9.7	-
Joseph (L)	♣v	463	—	463	353	24.5	4.0	25.9
King & Shaxson	♣v□	114	—	145	85	29.3	9.9	3.9
Rea Brothers	♣v	45	—	67	44	21.9	3.8	18.0
Schroders	♣†‡v□	1365	+2	*1478	906¼	1,870	1.4	19.0
N/V	†‡v	1185	+7	*1185	823¼	484.0	1.6	15.7
Singer & Fried	♣v□	109	—	110	81	214.4	4.2	11.3
8½pc Cv Ln 08/14		£134½	—	£134½	£109	41.2	6.3	-
Union	♣v□	111	-1	121	70	29.5	3.4	-
Wintrust	♣v	295	—	295	200	25.4	4.8	16.9

BANKS, RETAIL

	Notes	Price	+ or -	1995 High	1995 low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl	□	£28½	+⅛	£28⅝	£21⅞	9,698	4.9	18.4
ANZ A$	†	280	-8	280	199	3,738	5.1	8.1
Abbey National	♣†v□	578	+6	579	413	7,828	4.2	11.8
Allied Irish I£	♣†□	357	+10	357	250	2,379	4.8	10.4
Anglo Irish I£	□	80	+3	80	48	237.5	6.4	13.0
Asahi Y	□	670	+5½	857¾	605¼	15,782	0.8	-
Banco Bil Viz Pts	□	£26⅜	+⅛	£26½	£21⅛	4,612	4.1	9.0
Banco Sant Pts		£27⅞	—	£27⅞	£22⅞	4,412	4.8	16.0
Bk Ireland I£	†v□	471	+6	471	288	2,239	3.6	8.3
Bank Scotland	♣†v□	264xd	+2	278½	181½	3,109	9.0	11.1
9¼pc Pf		111¼xd	+¼	120	109¼	111.5	10.4	-
New 9 1/4pc Pf		111¼xd	+¼	118¼	108¼	111.2	10.4	-
9¾pc Pf		117¾xd	+½	125¾	112¾	177.8	10.4	-

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	1995 high	1995 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£31¾	—	£34	£29	2,108	2.7	Φ
Barlow	♣	£8¾	-⅛	£8¾	£4⅞	1,715	1.7	Φ
Gold Flds Prop R		150xd	—	192	118	15.3	7.6	6.8
MK Props.		90	—	90	85	3.46	13.8	-
SASOL	♥	561	+14	649	435	3,226	2.5	-
SA Brews		£20⅞	-⅛	£21¼	£12⅞	5,858	1.7	28.2
Standard Bank	□	£27	+⅛	£27⅞	£20⅞	3,231	1.7	18.7
Tiger Oats		1080	+20	1087	700	1,584	1.4	25.3
Tongaat-Hulett	†	892	—	892	636	803.9	2.2	18.8

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♠ Figures or report awaited
- ♥ Rule 2.1(b)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend b Figures based on prospectus or other official estimates ... ACT guidelines. z Dividend yield includes a special payment F Yield based on ... 1995-96. 6 Forecast annualised yield, p/e based on prospectus or other official estimates ...

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,020 a year for each security shown, subject to the Editor's discretion

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT7498. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

Both Annual Reports and FT Company Focus are available from the above number.

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Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £6.45.

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FT Cityline

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An International service is available for callers outside the UK, annual subscription £250 stg.

Call 0171 873 4378 for more information on FT Cityline.

For readers phoning from outside UK, please dial +44 in place of the first 0.

FT MANAGED FUNDS SERVICE

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Citimarkets SA				
Clan European Asset Value Fund				
NAV Nov 10	$10.07		-0.04	
Clemente Korea Emerging Growth Fund				
NAV Nov 10	$11.32		-0.19	
Credit Investment Funds				
[illegible]				

	Selling Price	Buying Price	+ or -	Yield Gross
Merrill Lynch Asset Management - Contd.				
[illegible]				
Montoray Trust SICAV				
NAV	$20.10			
Morgan Stanley Sicav				
[illegible]				
Murray Universal, Sicav				
[illegible]				
NICAM Asia Pacific Umbrella Fund				
[illegible]				
Nikko Asia Convertible Bond Fund				
[illegible]				
Nikko Bank (Luxembourg) S.A.				
[illegible]				
Nomura Asian Infrastructure Fd SICAV				
NAV	$10.01		-0.09	
Pacific Basin Growth Fund				
[illegible]				
Pan-Holding SA				
[illegible]				
REIG Global Funds				
[illegible]				
River & Mercantile Latin American SICAV				
Latin American NAV	$9.11		-0.04	
Rosenberg Global Mngt Co SA (u)				
[illegible]				
Rosenberg Management SA (u)				
[illegible]				

	Selling Price	Buying Price	+ or -	Yield Gross
Abtrust International Ltd				
[illegible]				
Albany International Assurance Ltd				
[illegible]				

	Selling Price	Buying Price	+ or -	Yield Gross
Royal Life International				
[illegible]				

	Selling Price	Buying Price	+ or -	Yield Gross
Camco Investment Management Ltd				
[illegible]				
Capital International				
Capital Int. Fund		$151.22		
Cathay Investment Fund Limited				
[illegible]				
Chameleon Funds Limited				
[illegible]				
Chescor Indian Investment Company Ltd				
[illegible]				
The China Fund				
[illegible]				

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGED FUNDS NOTES

[illegible]

LONDON STOCK EXCHANGE

MARKET REPORT

Footsie bursts through 3,600 to close at record

By Steve Thompson, UK Stock Market Editor

UK equities surged to all-time highs yesterday, driven by a heady mixture of takeover speculation, a fast-rising Wall Street, and economic oews suggesting a cut in UK interest rates could be imminent.

Also belping to support the stock market was a sbarp advance by gilts, with the yield on the benchmark 10-year issue falling to a new low for the year.

Seotiment in European markets was given a substantial lift by a reduction in Freoch and Dutch interest rates, and the prospect of a cut in German interest rates before the end of the year and possibly after the next Bundesbank council meeting, scheduled for November 30. The German central bank left its rates unchanged after yesterday's meeting.

The FT-SE 100 index blasted through its previous all-time peak and the 3,600 level to close a net 39.4 up at 3,610.8. Secood-line stocks, represented by the FT-SE Mid 250 index, moved in line with the leaders. The index ended 38.6 ahead at 3,960.8, still well sbort of its highest level this year, 3,991.3, reached on October 5, and almost 200 points shy of its record high, 4,152.4, attained in February 1994.

The FT-SE-A All-Share index hit an all-time high of 1,769.35, up 17.89 or 1 per cent.

Wall Street's move through 4,900 in the Dow Jones Industrial Average overnight, a move linked to numerous options expiries, dealers said, was the obvious catalyst for yesterday's initial surge by London equities. Bnt it was further evidence of lessening domestic inflationary pressures, via the retail price index data for October, plus a public sector debt repayment of £1.3bn for that month, thet catapulted the Footsie through tha magic 3,600 barrier.

Dealers were calabrating the sharply increased prospects of tax cuts and a reduction in interest rates in the November 28 Budget.

And with the Dow up again during early trading yesterday afternoon – it was almost 40 points higher an hour after London closed – marketmakers said they expected the FT-SE 100 index to open another 20 to 30 points higher if Wall Street manages to retain its early atrength. US Treasury boods climbed more than a point in the wake of a sharp fall in the Philadelphia Fed index, another indicator of a slowing US economy and which could help induce a cut in US interest rates.

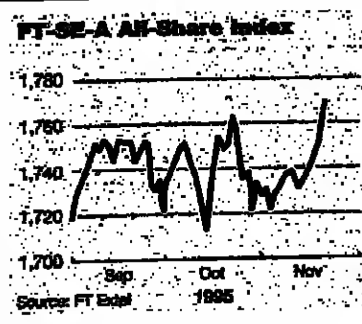
Other dealers, however, warned that markets on both sides of the Atlantic had become dangerously overheated. They cautioned that the monthly expiry, this morning, of FT-SE 100 index options could see extremely volatile trading and the possibility of a correction.

Mr Ian Harnett, strategist at SGST, the stockbroker, said: "The prospect of tax cuts and an interest rate rednction could provide a springboard for the FT-SE 100 to test 3,700 by the year-end."

Bid talk continued in Redland. NatWest moved significantly higher late in the day amid strong hints that the sale of US Bancorp could be announced this morning.

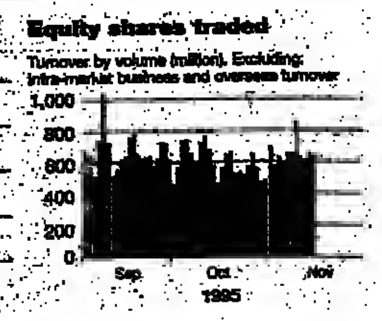
Turnover totalled 731.3m shares at 6pm, while retail husiness on Wednesday was valued at £1.625bn.

FT-SE-A All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Source: FT Extel

Indices and ratios

FT-SE 100	3610.8	+39.4
FT-SE Mid 250	3960.8	+38.6
FT-SE-A 350	1794.2	+18.1
FT-SE-A All-Share	1769.35	+17.89
FT-SE-A All-Share yield	3.81	(3.85)
FT Ordinary index	2641.8	+30.8
FT-SE-A Non Fins p/e	16.68	(16.56)
FT-SE 100 Fut Dec	3620.0	+30.0
10 yr Gilt yield	7.69	(7.80)
Long gilt/equity yld ratio:	2.10	(2.10)

Best performing sectors

1	Life Assurance	+4.1
2	Bldg. Matl. & Merchs.	+2.5
3	Textiles & Apparel	+2.4
4	Pharmaceuticals	+2.2
5	Insurance	+2.1

Worst performing sectors

1	Paper, Pckg. & Print	-0.7
2	Telecommunications	-0.4
3	Distributors	-0.3
4	Diversified Inds.	-0.0
5	Gas Distribution	+0.0

Merger hope lifts banks

Banking stocks moved sharply higher late yesterday on yield buying and takeover talk linked to the expected National Westminster disposal.

Analysts expect NatWest to announce the sale of its Bancorp arm in the US, possibly as early as today. There has been a strong belief that HSBC Holdings will take Bancorp, but some stockbrokers believe that the demand has pushed it outside the Hong Kong bank's price range.

If that is the case, HSBC is expected to look at a UK bank to boost the competitiveness of Midland, which is the smallest of the big four UK retail banks. Both Royal Bank of Scotland and TSB have been mentioned as potential targets. The former was 7 higher at 546p, while the latter rose 4 to 403p. NatWest advanced 15 to 661p.

Also, Credit Lyonnais Laing was telling institutions that 12 per cent of their funds should be in the banking sector and most of them were under-represented.

L&G bonus

Legal & General jumped 22 to 667p as the insurance company received the go-ahead from the Department of Trade and Industry to release a surplus in its life fund to shareholders and policyholders. The agreement is expected to give a 30p boost to L&G's net asset value per share.

Under the deal, L&G will change the rules on its life fund, increasing the shareholders' interest in the fund by around £160m. Analysts said the change would allow L&G to raise dividends, and thet the increase would be sustainable.

Even though L&G's situation is unique within the sector, the jump in the share price washed over to the other life groups. The big beneficiary was Prudential, which also produced sound figures from its US subsidiary. The Pru climbed 20 to 415p amid heavy turnover of 20m shares. Analysts said the pressure was now on the group to find extra shareholder value in some way.

Elsewhere, Britannic Assurance rose 25 to 743p and Refuge was up 13 at 473p.

The decision by Mr Rupert Murdoch's News International to raise the price of the Times and close the Today newspaper set the sector alight.

United News & Media, which owns the Daily Express, leapt 31 to 570p on a relaxation of price war competition from the Times and intense speculation, later denied by the group, that a sale was imminent. Mirror Group benefited because of the effect on the tabloid market of the Today closure and the benefits to the Independent of the Times price rise. The shares moved ahead 13 to 180p. Telegraph shares gained 19 at 428p.

Portsmouth & Sunderland newspaper group shot ahead 17 to 565p after the company announced that it had sold its Croydon Advertiser group for £12.95m.

Retailer W.H. Smith retreated late in the session following the Times cover price announcement. The news left W.H. Smith trailing 8 at 403p amid fears thet the News International's move may reduce margins available to newspaper retailers.

Howevar, Mr Richard Edwards at ABN Amro Hoare Govett believes the fall was overdone and said: "An aggressive approach by publishers could lead to a reduction of shelf space, and more importantly newspaper retail sales represent only 1.5 per cent of group turnover at Smith. Notably there are no implications for their newspaper wholesale business."

Telecoms giant BT stayed a weak market, briefly breaching its 1995 closing low, as talk of a stock overhang combined with uncertainty ahead of a forthcoming industry discussion document.

Talk of corporate activity involving Cable and Wireless resurfaced, with some of the wilder speculation focusing on an ontright bid for C&W. But the main trigger for yesterday'a bear push in BT came from competition and pricing worries.

BT is locked in discussions with industry regulator Oftel on a whole range of critical issues; and the first of two discussion documents on price controls is due to be published early next month.

The shares, which have come down from a peak of 415½p over the past two months, slipped a further 2 to 362½p in turnover of 17m, double the recent daily average.

The atock's traded options racked up the equivalent of a further 5.6m of cash market share volume. There was a strong suggestion from dealers that this week's options expiry had created something of a cash market overhang.

Options expiry was also said to be part of the reason for a 3¼ decline to 252p – in 9.8m traded – at mobile phones group Vodafona. Interim results in line with market expectations left Cable and Wireless 2 better at 425p.

A profits downgrade by UBS pushed international distributor Inchcape to the bottom of the Footsie rankings. The broker takes a cautious view of trading prospects and has reduced current year estimates by £18m to £142m. The shares, which stood at 430p earlier this year, came off 11 to 295p.

Among UK car distributors, Cowie Group surged strongly following reiterated buy advice from Merrill Lynch. The shares, which have had a poor run lately, rose 16 to 292p.

Textiles group Coats Viyella improved in response to analysts' recommendations following a period of stark underperformance.

SBC Warburg argued that, for both fundamental and technical reasons, the sector had hit a trough and Coats offered a 6.5 per cent yield, overseas exposure and the prestige of being perceived as the sector's bellwether stock.

Meanwhile, NatWest Securities, which only a month ago reduced forecasts on a number of the sector's key stocks, argued that trading performance in October had taken the sector to a 10-year relative low against the market and provided a buy opportunity. Among the leaders, Coats rose 10 to 191p and Courtanlds Textiles 10 to 424p.

Glaxo Wellcome gained 23 at 888p in response to buying in the US and confirmation by the company that it intends to appeal for restrictions on the powers of the Inland Revenue to collect back tax from multinationals.

In food manufacturing, United Biscuits hardened 7 to 267p after announcing the sale of its US frozen foods business.

Bargain hunting combined with vague bid talk to lift Geest 15 to 122p.

P&O looked to share in the general upturn for property shares. The group's £2.3bn of property assets account for around a fifth of total profits, and the stock put on 6 at 500p.

Both British Airways and AB Ports reversed recent weakness. BA gained 11 at 477p and the UK docks leader rose 14 to 302p.

Trucks rental specialist Goode Durrant moved forward 18 to 258p.

A number of slower moving building material stocks took the opportunity to catch up with the sector. Redland, Blue Circle and RMC, all of which have been held back by concern about the German economy, bounced sharply.

Helped by a buy recommendation from Kleinwort Benson, Redland was the second best performing Footsie share, appreciating 16 to 359p.

MARKET REPORTERS:
Peter John,
Joel Kibazo,
Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Nov 16	Nov 15	Nov 14	Nov 13	Nov 10	Yr ago	*High	*Low
Ordinary Share	2641.8	2611.0	2604.2	2588.3	2578.3	2408.7	2888.5	2238.3
Ord. div. yield	4.08	4.12	4.11	4.13	4.15	4.32	4.73	4.02
P/E ratio net	15.89	15.69	15.80	15.82	15.60	16.23	21.93	15.35
P/E ratio nil	15.73	15.52	15.60	15.43	15.37	17.66	22.21	16.17

*For 1995. Ordinary Share index since compilation: high 2713.6 3/02/94, low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2628.4	2625.3	2631.7	2637.8	2634.6	2633.6	2630.6	2628.2	2639.9	2641.8	2625.2

	Nov 16	Nov 15	Nov 14	Nov 13	Nov 10	Yr ago
SEAQ bargains	32,236	27,482	26,425	29,572	27,258	25,219
Equity turnover (£m)†	-	1738.2	1625.3	1148.1	1373.9	1435.3
Equity bargains†	-	33,796	35,125	35,096	33,809	30,374
Shares traded (mil)†	-	645.6	667.4	603.7	612.5	652.9

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	978	Total Highs	173	Total contracts	71,410
Total Falls	374	Total Lows	42	Calls	39,224
Same	1,624			Puts	32,186

Nov. 16 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3607.0	3620.0	+30.0	3629.0	3600.0	15096	65189
Mar	3625.0	3644.5	+30.5	3653.0	3625.0	2186	6919
Jun		3660.0	+30.0			0	134

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		3970.0	+40.0			0	3319
Mar		4015.0	+42.0			0	300

■ FT-SE 100 INDEX OPTION (LIFFE) (*3610) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 10,915 Puts 16,216 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1995 High	1995 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	32.2	83	82	Abtrust Asian Smlr	82		-	-	-	-
-	F.P.	22.7	33	32	Do Warrants	32½		-	-	-	-
-	F.P.	11.7	22	17	†Alpha Omicron	21	-1	-	-	-	-
-	F.P.	2.13	10	9	†Avion Props	10		-	-	-	-
305	F.P.	48.8	301	285	BZW Eq Tesco Wt	289	-1	-	-	-	-
-	F.P.	8.32	86	95	Baronsmead VCT	86		-	-	-	-
-	F.P.	61.2	102	101	Benfield & Rea	102	+1	-	-	-	-
-	F.P.	5.76	84	80	†Chartwell Intl	84	+4	-	-	-	-
-	F.P.	4.83	130	102	†Cross Intl	122		-	-	-	-
80	F.P.	3.70	71	65	†Dewid Glass	70		Rx2.88	2.4	5.1	10.0
145	F.P.	59.7	162	142½	Enterprise Inns	147½	+2½	W6.4	-	5.4	10.3
-	F.P.	91.0	95	90	Guinness Flight	91		-	-	-	-
-	F.P.	191.0	195	191	Do Units	191		-	-	-	-
-	F.P.	2.00	13	10	Do Warrants	10		-	-	-	-
125	F.P.	27.8	165	128	Heritage Bath	155		-	-	-	-
-	F.P.	11.2	116	112	†Indpt Radio	112		V-	-	-	-
-	F.P.	21.1	543	488	†Intl Greetings	503		-	-	-	-
45	F.P.	12.7	65	52	†MultiMedia	65		V-	-	-	-
-	F.P.	14.1	101	97	Northern Venture	97		-	-	-	-
100	F.P.	24.8	102	99	Perpetual UK Smlr	99		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Nov 16	% chg on day	Nov 14	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (34)	1831.02	-1.0	1849.88	2076.00	1.96	-	2076.00	1637.91
■ Regional Indices								
Africa (16)	2451.56	-2.0	2500.91	3363.59	4.18	21.25	3363.59	2272.74
Australasia (6)	2247.59	-2.6	2306.51	2689.87	2.18	25.56	2691.08	1768.20
North America (12)	1596.25	-0.1	1597.75	1602.77	0.84	45.84	1831.00	1348.16

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FT - SE Actuaries Share Indices — The UK Series

	Nov 16	Day's chge%	Nov 15	Nov 14	Nov 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3610.8	+1.1	3571.4	3547.9	3536.8	3127.5	3.96	2.09	15.09	130.47	1434.30
FT-SE Mid 250	3960.8	+1.0	3922.2	3905.3	3897.3	3576.6	3.47	1.82	19.84	133.23	1547.44
FT-SE Mid 250 ex Inv Trusts	3986.1	+1.0	3945.9	3927.7	3919.6	3577.0	3.59	1.88	18.54	139.88	1557.68
FT-SE-A 350	1794.2	+1.1	1775.1	1764.3	1759.2	1568.7	3.85	2.04	15.93	68.82	1457.32
FT-SE-A 350 Higher Yield	1786.2	+1.1	1766.0	1755.3	1750.7	1570.4	4.88	1.84	13.93	79.36	1203.35
FT-SE-A 350 Lower Yield	1807.0	+1.0	1789.1	1778.1	1772.5	1526.5	2.80	2.40	18.67	47.01	1225.99
FT-SE SmallCap	1943.18	+0.3	1936.94	1936.52	1937.14	1789.36	3.35	1.69	22.05	56.18	1566.19
FT-SE SmallCap ex Inv Trusts	1928.51	+0.3	1923.36	1922.64	1923.74	1755.65	3.57	1.77	19.74	59.28	1582.80
FT-SE-A ALL-SHARE	1769.35	+1.0	1751.46	1741.55	1736.92	1553.02	3.81	2.02	16.25	62.04	1460.60

■ FT-SE Actuaries All-Share

	Nov 16	Day's chge%	Nov 15	Nov 14	Nov 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	2967.28	+0.5	2971.88	2952.91	2926.52	2709.20	3.92	2.02	15.79	116.67	1257.05
12 Extractive Industries(7)	4145.48	+0.4	4127.98	4120.75	4163.24	3639.70	3.56	2.51	13.95	143.77	1188.60
15 Oil, Integrated(3)	2994.32	+0.6	2976.74	2952.19	2913.08	2690.56	4.11	1.96	15.55	123.19	1291.69
[illegible]											

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

COMMERCIAL PROPERTY

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 16 / Sch)

BELGIUM/LUXEMBOURG (Nov 16 / Frs.)

CZECH REP (Nov 15 / Koruna)

DENMARK (Nov 16 / Kr)

FINLAND (Nov 16 / Mk)

FRANCE (Nov 16 / Frs.)

GERMANY (Nov 16 / Dm.)

GREECE (Nov 16 / Drachma)

ITALY (Nov 16 / Lire)

NETHERLANDS (Nov 16 / Fls.)

NORWAY (Nov 16 / Kroner)

POLAND (Nov 16 / Zloty)

PORTUGAL (Nov 16 / Escudo)

SPAIN (Nov 16 / Pts.)

SWEDEN (Nov 16 / Kronor)

SWITZERLAND (Nov 16 / Frs.)

TURKEY (Nov 16 / Tk Lira)

PACIFIC

JAPAN (Nov 16 / Yen)

HONG KONG (Nov 16 / H.K.$)

INDONESIA (Nov 16 / Rupiah)

MALAYSIA (Nov 16 / MYR)

NEW ZEALAND (Nov 16 / NZ $)

SINGAPORE (Nov 16 / S$)

AUSTRALIA (Nov 16 / Aus$)

SOUTH KOREA (Nov 16 / Won)

TAIWAN (Nov 16 / TW $)

THAILAND (Nov 15 / Baht)

MONTREAL (Nov 16 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (Nov 16 / Rand)

INDICES

	Nov 16	Nov 15	Nov 14	1995 High		1995 Low	
Argentina							
General (29/12/77)	(u)	13065.96	12850.98	18531.10	2/1	9831.50	9/3
Australia							
All Ordinaries(1/1/80)	2108.1	2110.3	2124.8	2168.80	18/9	1822.30	8/2
All Mining(1/1/80)	974.7	976.9	981.0	1029.50	7/8	786.30	8/2
Austria							
Credit Aktien(30/12/84)	332.71	333.01	334.07	385.42	2/1	328.50	27/10
Traded Index(2/1/91)	901.36	902.10	907.28	1058.31	2/1	882.19	23/10
Belgium							
BEL20 (1/1/91)	1457.63	1446.64	1432.46	1491.39	2/8	1271.52	9/3
Brazil							
Bovespa (29/12/83)	(u)	(u)	37973.0	48612.00	19/9	4531.89	8/8
Canada							
Metals Minls ◆(1975)	(u)	4927.74	4961.22	5282.77	21/8	3808.63	1/3
Composite ◆ (1975)	(u)	4560.50	4572.20	4710.30	13/7	3891.41	30/1
Portfolio§§ (4/1/83)	(u)	2215.69	2224.10	2307.81	12/7	1863.36	30/1
Chile							
IPSA Gen¶(31/12/80)	(u)	(u)	5568.9	6363.10	11/7	4578.50	9/3
Denmark							
CopenhagenSE(3/1/83)	355.34	354.52	356.55	376.44	25/8	338.01	29/3
Finland							
HEX General(28/12/90)	1843.86	1871.98	1871.59	2332.22	14/8	1555.39	29/3
France							
SBF 250 (31/12/90)	1253.66	1233.71	1216.27	1322.30	12/5	1154.41	13/3
CAC 40(31/12/87)	1805.14	1875.18	1839.21	2017.27	12/5	1721.14	23/10
Germany							
FAZ Aktien(31/12/58)	790.75	785.88	786.49	846.76	19/9	708.87	30/3
Commerzbank(1/12/53)	2294.80	2281.50	2282.10	2427.80	18/9	2018.70	30/3
DAX (30/12/87)‡	2200.72	2185.17	2167.29	2317.01	15/5	1910.96	28/3
Greece							
Athens SE(31/12/80)	895.59	898.23	898.84	992.59	4/8	787.19	16/3
Hong Kong							
Hang Seng(31/7/64)	9367.65	9431.38†	9407.37	10032.93	17/10	6967.93	23/1
India							
BSE Sens.(1979)	3143.10	3158.86	3139.79	3932.08	2/1	3015.07	2/5
Indonesia							
Jakarta Comp.(10/8/82)	459.90	460.61	469.29	518.18	11/8	414.21	13/4

	Nov 10	Nov 15	Nov 14	1995 High		1995 Low	
Japan							
Topix (4/1/68)	1424.85	1411.87	1420.77	1558.40	4/1	1193.16	13/6
2nd Section (4/1/68)	1862.35	1868.89	1865.30	2238.86	4/1	1441.98	13/6
Malaysia							
KLSE Comp.(4/4/86)	894.04	895.47	883.98	1005.84	5/6	840.87	24/1
Mexico							
IPC (Nov 1978)	(u)	2280.16	2241.53	2822.21	8/8	1447.82	27/2
Netherland							
CBS TtRtnGen(End 83)	499.3	497.1	498.0	511.80	19/9	422.80	23/3
CBS All Shr (End 83)	302.3	301.0	301.6	311.19	15/9	265.28	23/3
New Zealand							
Cap. 40 (1/7/86)	2155.02	2164.44	2189.82	2206.02	20/10	1981.43	5/1
Norway							
Oslo SE(Ind)(2/1/83)	1207.82	1207.43	1215.92	1282.18	18/10	1036.09	10/3
Philippines							
Manila Comp (2/1/85)	2291.40	2215.26	2340.41	2958.32	10/7	2248.39	27/3
Portugal							
BTA (1977)	2489.4	2512.0	2528.3	2911.80	9/1	2489.40	16/11
Singapore							
SES All-S'pore(2/4/75)	508.76	505.80	503.36	536.06	5/1	472.89	23/1
South Africa							
JSE Gold (28/9/78)	1332.3¥	1326.2	1359.1	2023.80	2/1	1258.28	30/10
JSE Ind. (28/9/78)	7670.3¥	7618.2	7635.2	7678.50	7/11	6222.80	31/1
South Korea							
KoreaCompEx(4/1/80)**	933.98	937.04	948.34†	1027.37	2/1	847.89	27/5
Spain							
Madrid SE (30/12/85)	301.57	298.52	299.35	318.98	13/9	283.30	28/6
Sweden							
AffarsvarldGen (1/2/37)	1697.5	1688.8	1682.3	1872.18	19/9	1438.80	29/3
Switzerland							
Swiss Bk Ind (31/12/58)	1437.42	1428.44	1434.54	1440.82	9/11	1174.63	13/3
SBC General (1/4/87)	1080.36	1074.79	1077.40	1082.89	9/11	870.58	13/3
Taiwan							
WeightedPr.(30/6/66)**	4939.28	4808.70	4630.97	7051.49	5/1	4503.37	14/8
Thailand							
Bangkok SET (30/4/75)	1174.62	1175.09	1192.85	1472.84	10/7	1136.88	16/3
Turkey							
Istanbul Comp.(Jan 1986)	42716.7	42654.7	42817.1	54653.98	21/4	24844.31	23/1

US INDICES

NORTH AMERICA

CANADA

TORONTO (Nov 16 / Can $)
4 pm close

Sales			+/-	High	Low
486782	Abitib	22⅞	+⅛	$22⅞	31¼
66200	AgnEag	16¼		$16⅝	16⅛
112160	AirCda	480		485	475
70706	AlbaE	22⅞	+⅛	$22⅞	31¼
48600	AlbNtG	19	−⅛	$19½	10
635530	AlcnAl x	42½	−¼	$43	42⅝
190700	AlcoCl	17⅛	+¼	$17⅝	17⅛
35292	Avenor	27¼	−⅛	$27⅝	27⅛
112090	BCSugA	8½		$8½	8⅛
176441	BC Tel	24⅝		$24⅝	24½
161946	BCE	45⅜		$45⅝	45⅜
118600	BCE Mb	39⅝	+¼	$39⅝	39⅝
5506	BBR A	13⅝	−⅛	$13⅝	13⅜
975052	BkMont x	30⅜	+⅛	$30⅝	30¼
1095410	BkNovS	29⅝		$30¼	29⅝
1005578	BrckGd	33⅜	+⅛	$34	33⅝
151480	BowVEx	140		149	148
6940	BombA	17⅝	+⅛	$17⅝	17¼
698425	BmbdrB	17⅝	+½	$17⅝	17⅝

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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■ TOKYO – MOST ACTIVE STOCKS: Thursday, November 16, 1995

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Hachijuni Bank	9.3m	1130	+10	Takaoka Elec Mfg	7.8m	583	+53
Japan Energy	9.1m	310	+8	NKK Corp	6.1m	263	+2
Takara Shuzo	8.1m	1020	+48	Hyogo Bank	5.9m	2	
Nippon Steel	8.1m	350	+4	Mitsui Min & Sml	5.5m	397	+4
Shizuoka Bank	8.0m	1200		Taito	4.6m	1050	+20

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close November 16

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
19	12⅛	AAR	0.48	2.6	25	33	18½	18¼	18⅜	
48¼	20	AMP x	0.92	2.3	20	5670	40¼	39½	39⅞	+⅛
80¼	53⅛	AMR			15	16741	68¼	50	67¼	+1¼
47⅞	20⅜	ASA x	1.71	4.5	25	416	20½	20	30¼	-¼
44¾	30¾	AbbtL	0.84	2.1	19	12324	40¼	39½	40¼	+½
18⅞	12	Abitibi Pr	0.40	2.4	6	7528	16⅝	16⅛	16⅝	+⅛
27⅞	21	ABM Ind	0.60	2.3	14	6	26⅞	26⅞	26⅞	+⅜
17½	13⅛	Accptnce			10	328	14⅝	14½	14⅝	
37¼	21⅞	ACE Ltd	0.56	1.8	6	9158	35⅜	35	35¼	-⅛
9⅞	6⅜	ACM Gvt In x	0.80	9.5	6	81	9⅝	9½	9½	
7⅛	6½	ACM GvOpp x	0.68	9.1		44	7⅛	7¼	7¼	
7½	5¾	ACM Gvt Sp x	0.75	10.7		238	7	5⅞	7	+⅛
8⅜	7¼	ACM Gvt Se z	0.90	10.4		784	u9¾	9⅝	9⅝	
9½	7⅜	ACM Man x	0.90	10.3		252	8¾	8⅝	8¾	+⅛
29¼	16¼	AcmeCle	0.40	2.0	41	150	23¼	22⅞	23½	+1⅛
38¾	7⅜	Acme Elect			68	202	8⅛	7⅞	5	+¼
34½	25¾	Acordia	0.72	2.0	15	10	27⅝	21½	27⅝	+⅛
16¾	10⅛	Acuson			36	1030	11⅜	11¼	11⅜	+⅛
19⅝	15⅝	Adams Expr x	0.48	2.6	0	273	18⅞	18⅛	18¼	-1⅜
38⅞	27⅞	AdvMic			7	8050	22⅛	21⅜	21⅝	+⅛
9¾	5	Advest Grp	0.18	1.8	12	48	9¼	9⅛	9⅛	
27½	18½	Advo Inc	0.10	0.4	19	238	27	28⅛	28⅛	-⅞
41½	24.00	Aegon	1.28	3.1	22	121	u41⅛	41⅛	41¼	-⅛
5⅞	3⅜	Aerflx			6	86	4½	4⅜	4⅛	
76¼	48¾	AetnaL	2.76	3.7	20	3831	74⅛	73⅞	74⅜	+⅜
44¾	31⅞	AMac x	0.52	1.2	13	3189	42⅜	41½	42⅜	+1¼
28⅞	18	Ahmson x	0.88	2.4	15	1228	28⅛	25¾	26	+¼
59½	43⅞	AirPrC	1.04	1.0	17	3762	57⅝	58½	57⅛	+⅞
29½	18⅜	Airbne Frt	0.30	1.1	20	803	27⅝	27¼	27½	+¼
30	10⅝	Airgas Inc			25	126	28⅞	28	28	-⅛

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
41⅞	26¾	Baxter	1.15	2.9	10	4040	39⅛	38⅞	20¼	
37	22¼	Bay St Gas x	1.50	5.8	15	207	u27¼	28¾	28⅞	-¼
22	19	Bd Tr 1838	1.64	7.5		21	21⅞	21⅝	21⅞	+⅛
23⅞	15⅞	Bear Strns x	0.60	3.0	0	2808	20¼	19¾	20	+¼
44¼	40¾	BearStPIA	2.75	6.2		2	u44¼	43¾	44¼	
23⅞	21½	Betrngs x	0.72	1.0	15	130	30	37	37⅛	+⅛
35¼	26½	Beckmn In x	0.44	1.3	19	169	35	34¾	34⅞	+⅛
67⅞	40	BectnD	0.82	1.2	18	1288	u67¾	67⅜	67⅛	+⅜
7⅛	5⅛	BelrdProp	0.42	6.0	21	139	7	7	7	+⅛
65⅞	40⅜	BellAtl	2.80	4.4	15	4255	64½	63⅛	64	+⅜
25⅝	17¾	Bell In	0.40	1.7	15	99	23⅞	23	23	-¼

Continued on next page

4 pm close November 16

NYSE COMPOSITE PRICES

1995 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
26¼	20½	Scana Corp	1.44	5.5	19	587	26⅛	26	26	-⅛
18	14½	Scecrp	1.00	5.8	10	4661	17¼	17	17⅛	
11¼	6⅞	SchawkA	0.26	3.9	10	89	6¾	d6¼	6⅝	+¼
50¼	37¼	ScherenRP			21	2128	41⅞	40¼	41⅛	+1
56	35½	SchPl	1.16	2.1	20	8984	u56½	55¼	55⅝	
69⅝	50⅛	Schlmb	1.50	2.3	24	4239	64¼	63¼	63⅞	+⅝
23	11⅛	Schwab(C)	0.10	0.6	28	5846	24⅞	22¾	24⅝	+1¾
24⅞	11⅜	SciAtl	0.06	0.4	21	5599	15⅞	15⅜	15⅝	+⅛
20	10⅜	Scotsmn	0.10	6.3	10	158	16¼	16⅛	16¼	
55⅛	33½	ScottP	0.40	0.7	15	13567	54⅝	53¼	54⅝	+1⅜
38⅞	28⅞	Scripps	0.52	1.4	25	268	37⅜	37	37¼	+⅛
21½	13½	ScudderNAmF	0.02	0.1		123	13⅝	d13⅛	13⅝	+⅛
11⅞	8⅝	ScudderNEuF x	0.16	1.5		675	10¾	10½	10⅝	+⅛
20	13⅜	SeaCnB	0.70	3.8	1	87	18½	18¼	18½	+¼
16⅛	14¾	SeaC1.4625	1.46	9.2		2136	15⅞	15⅞	15⅞	
52⅛	29⅞	S'gate			10	19629	61⅜	50	51⅛	+1⅞
35⅛	25⅝	Seagrm	0.60	1.6	25	2936	36⅞	36¼	36½	
22½	15¼	Seagull En			65	2492	19½	18⅞	19½	+1
30⅝	13	Sealed Air			25	1246	u30⅝	30⅛	30⅝	+⅛
38⅞	30⅜	SearsR	0.92	2.3	8	17985	u38⅞	38⅞	38⅝	+⅛
19¼	16⅝	SecCapStr	1.15	0.2	21	222	18½	18¼	18½	+⅛
12¾	10⅛	Seligm Sel x	0.84	6.9		95	12¼	12⅛	12¼	+¼
38¼	20	Sensormat	0.22	1.0	20	2875	22⅞	22	22⅞	+⅛
32⅛	21⅞	SequaA	0.80	2.0	9	495	31¼	30⅜	30⅜	+¾
37⅝	23	SequaB	0.50	1.3	20	63	u38⅛	37½	37⅝	-½

[illegible]

AMEX COMPOSITE PRICES

4 pm close November 16

[illegible]

4 pm close November 16

NASDAQ NATIONAL MARKET

[illegible]

AMERICA

Dow nearing 5,000 level by midsession

Wall Street

A soaring bond market and optimism that the US President and Congress were making progress on a deficit-cutting budget package sent prices surging to new records in early trading, *writes Lisa Bransten in New York.*

Shares also got some help from buying related to today's expiration of options and futures on several indices, known as "double witching".

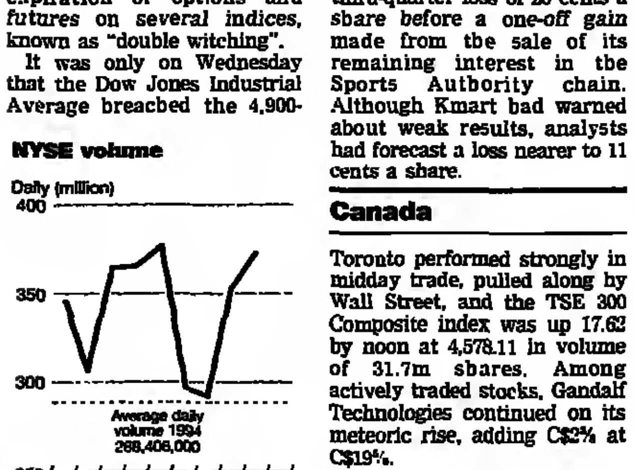
It was only on Wednesday that the Dow Jones Industrial Average breached the 4,900-point barrier, yet by 1pm yesterday the index was approaching 5,000, with a 40.11 gain bringing it to 4,962.86.

The Standard & Poor's 500 index rose 3.20 to 597.16, while the American Stock Exchange composite added 1.54 at 528.76. Volume on the New York Stock Exchange amounted to 257m shares.

The Dow benefited from speculation that Boeing and McDonnell Douglas were contemplating a merger. Boeing, which is a component of the Dow, appreciated $1¼ to $75¼ and McDonnell Douglas jumped $3⅞ to $90¼.

Other gaining issues in the Dow included Woolworth, up $1⅛ at $15½, Minnesota Mining & Manufacturing, $1⅝ stronger at $62¾, and Procter & Gamble, which added $1 at $87¾.

NYSE volume



Technology shares were also mostly higher, although the Nasdaq composite was held back by declines in Microsoft and Intel, the two largest companies on that index. Microsoft fell $3¼ to $90⅞ on reports that *an analyst at Goldman Sachs* had lowered his investment rating on the shares and Intel slipped $⅞ to $64⅞.

Kmart shed $¼ or 3.2 per cent to $7⅛ after reporting a third-quarter loss of 26 cents a share before a one-off gain made from the sale of its remaining interest in the Sports Authority chain. Although Kmart had warned about weak results, analysts had forecast a loss nearer to 11 cents a share.

Canada

Toronto performed strongly in midday trade, pulled along by Wall Street, and the TSE 300 Composite index was up 17.62 by noon at 4,578.11 in volume of 31.7m shares. Among actively traded stocks, Gandalf Technologies continued on its meteoric rise, adding C$2⅝ at C$19⅝.

Latin America

SAO PAULO forged ahead 4 per cent in early afternoon trade helped by rises elsewhere in the region. The Bovespa index was 1,680 higher at 39,653, although turnover was a thin R$129m ($134.2m).

MEXICO CITY was steady amid some sporadic profit-taking. The IPC index had edged up 18.02 to 2,278.20 by midsession. In BUENOS AIRES the Merval index was lifted 2 per cent to 409.96 by midday.

SOUTH AFRICA

Industrials were firmer following the lead from the US. Golds rose on a stable bullion price, although traders said there was still some bearish sentiment around. The overall index put on 25.5 at 6,006.2, industrials 54.1 at 7,670.3 and gold shares 6.1 at 1,332.3.

EUROPE

Paris punches confidently through 1,900 mark

Equity markets in continental Europe were gripped by hopes of lower interest rates. A cut in the five to 10-day lending rate was the reward that PARIS received in response to the government's tough stance on welfare reform. The CAC-40 motored ahead to a session's high of 1,909.95, *before slipping* to finish 29.98 or 1.6 per cent up at 1,906.14. Turnover was heavy at FFr8bn.

The financials led the way as a group; but pharmaceuticals lagged behind after the *government announced that it would* be seeking up to FFr2.5bn from the industry in 1996 to help cut social security spending. Sanofi dropped FFr7.40 to FFr291.10, although Rhône-Poulenc Rorer, not a CAC constituent, made FFr3 to FFr226.

There was also weakness in some consumer sector issues, with LVMH down FFr18 at FFr938 and Carrefour off FFr37 at FFr2,728. Euro Disney continued to be sold and the stock surrendered FFr1.30 or 9 per cent to FFr12.90.

FRANKFURT opened higher following the gain on Wall Street. The Dax index closed 14.55 ahead at 2,200.72, and in the Ibis the indicative index settled at 2,202.50.

There was excitement in chemicals as BASF made DM1.95 to an Ibis close of DM316.95, Bayer DM1 to DM387.60 and Hoechst DM2.50 to DM337. Thyssen, the steel and engineering group, jumped DM2.60 in the Ibis to DM256.35 after reporting a rise in pre-tax profits.

Bremer Vulkan, the shipbuilder, dropped 40 pfennigs to DM39.70 on news that it would make a loss this year because of problems at one of its divisions, before recovering to end DM2.50 up at DM43.50.

MILAN made a strong start to the December trading account. The Comit index rose 11.95 to 573.02, with analysts noting that selling pressure by fund managers making room in their portfolios for the ENI share sale had now dried up.

Olivetti picked up L24 to L1,097 as it launched its L2,257bn capital increase, still benefiting from the alliance with France Telecom,

FT-SE Actuaries Share Indices

Nov 16							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1429.48	1431.43	1431.26	1430.94	1431.84	1430.04	1430.94	1432.37
FT-SE Eurotrack 200	1542.59	1542.33	1543.01	1542.81	1542.31	1541.73	1541.52	1542.61
	Nov 15	Nov 14	Nov 13	Nov 10	Nov 9			
FT-SE Eurotrack 100	1412.62	1414.40	1411.35	1410.17	1421.30			
FT-SE Eurotrack 200	1522.63	1524.10	1521.80	1522.31	1533.52			

Base 1000 (26/10/90); High/day: 100 - 1432.37; 200 - 1544.75 Low/day: 100 - 1428.79 200 - 1540.11 † Partial

announced on Wednesday.

Strong foreign demand for the insurance sector took Generali L1,040 higher to L36,719 and Alleanza up L380 to L13,628. Banks were also in demand: BCI rose L63 to L3,120, Ambroveneto L141 to L4,067 and Banca di Roma L57 to L1,546.

Gemina, sharply lower in the last monthly trading account, improved L23 to L687.

ZURICH was carried along by the firmer dollar and solid overnight gains on Wall Street, and the SMI index closed 23.6 higher at 3,148.4.

Roche certificates rose SFr50 to a high for the year of SFr8,470, overcoming early pressure on the stock after Zeneca shares rose strongly in London prompting renewed takeover speculation.

Nestlé picked up SFr16 to SFr1,214 on follow-through buying after BZW was seen as a buyer of the stock.

Ciba added SFr3 at SFr992, boosted by a broker's report that said the shares were undervalued compared with other companies in the sector.

In the opposite direction, Holderbank gave up SFr3 to SFr849 after UBS reduced its rating, saying that recently announced takeover plans made sense but were too expensive.

SMH, the watchmaker, dropped another SFr7 to SFr655 in further response to news that UBS and Bank Julius Baer had lowered their forecasts for the company's 1995 net profits. In the banking sector, the market largely ignored a press report that SBC might be interested in acquiring Prudential Securities, the troubled Wall Street arm of Prudential Insurance. SBC firmed SFr4 to SFr479.

HELSINKI's HEX index finished at a six-month low, shedding 31.65 or 1.7 per cent to 1,843.88. The fall was precipitated by a sell-off in Nokia, the telecommunications group, with some dealers suggesting that a number of institutions had been switching portfolios to Ericsson. Nokia shares receded FM7 to FM228. Turnover was heavy at FM1bn.

STOCKHOLM was supported again by Ericsson in early dealings, but the B shares of the company closed unchanged at SKr148.50, having seen a midsession high of SKr152. The Affärsvärlden General index rose 8.90 to 1,697.5.

Forestries were generally weak, although MoDo B hardened SKr3 to SKr301 on reports that it was protected by currency hedging. Stora A fell SKr1.50 to SKr76 and SCA B shed SKr0.50 to SKr107.50.

AMSTERDAM recovered from a dip at midsession as the central bank cut its advance rates, stimulating late-session sentiment, dealers said. The AEX index finished 1.22 ahead on balance at 460.23.

Royal Dutch was one of the main movers, rising Fl 3.50 to Fl 199.20 following a broker's upgrade.

KNP BT lost Fl 1.60 to Fl 41.70 on worries about the effect falling paper prices would have on margins.

MADRID moved sharply ahead, the general index putting on 3.05 at 301.57, with futures trading boosted by investors rolling over the November contract, which expires today, to December.

Sevillana de Electricidad rose Pta34 to Pta859 in response to Wednesday's results, while Argentaria climbed Pta155 to Pta4,515.

Written and edited by Michael Morgan and John Pitt

ASIA PACIFIC

Nikkei rebounds 1.5% but China shares pressured

Tokyo

The overnight surge on Wall Street lifted investor confidence, and the Nikkei average rose 1.45 per cent, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 index gained 256.78 at 17,939.52 after fluctuating between 17,685.93 and 17,942.11. The dollar's recovery against the yen and the rally of US stocks supported sentiment, prompting a rise in futures. Domestic institutions placed buying orders at lower levels which also encouraged some investors.

Volume was 330m shares, against 378m. Overseas investors bought low priced large-capital issues, while taking profits on high-technology stocks. According to the Tokyo stock exchange, foreigners bought a net Y18.8bn in shares during the second week of November, while individuals sold Y14.9bn. Insurance companies were net sellers of Y19.7bn, while banks bought a net Y12.6bn.

The Topix index of all first section stocks rose 13.18 to 1,424.85 and the Nikkei 300 climbed 2.77 to 266.84. On the first section of the TSE, advances led declines by 672 to 347 and 159 issues were unchanged. But in London the ISE/Nikkei 50 index dipped 1.45 to 1,208.13.

Overseas investment funds took profits on high-technology shares ahead of the December year-end book closing. However, domestic institutions supported the sector thanks to expectations of strong earnings for many of the companies. The rise in the dollar also helped confidence.

Semiconductor related stocks gained ground in spite of active selling by foreign investors. Advantest, the semiconductor testing device maker, advanced Y80 to Y5,490 and Nikon Y20 to Y1,420.

Speculative trading lifted Japan Energy, the mining and petroleum refining company. The stock rose Y9 to Y310 on buying by individual investors and brokerage dealers. Other speculative favourites were also higher, with Takaoka Electric up Y53 to Y583 and Takara Shuzo gaining Y48 at Y1,020.

Regional banks were cross traded by investors looking to realise profits while maintaining their portfolios. Hachijuni Bank, the day's most active issue, put on Y10 at Y1,130, but Shizuoka Bank was unchanged at Y1,200.

In Osaka, the OSE average rose 36.25 to 19,279.56 in volume of 70.1m shares. High-technology stocks led the rise, with Rohm, the semiconductor device maker, up Y70 to Y6,060.

Roundup

Strong early gains were reversed in HONG KONG in *sympathy* with a plunge of mainland China companies' H shares. The Hang Seng index slipped a net 63.73 to finish at 9,367.65, while the H share index plunged 46.03 or 6.3 per cent to 684.85. Turnover expanded to HK$3.8bn from Wednesday's HK$2.7bn.

Among major H shares, Shanghai Petrochemical dropped 19 cents to HK$1.71 and Tsingtao Brewery lost 14 cents to HK$1.84.

SHANGHAI's hard currency B share index fell to a six-month low after Beijing announced a record high anti-inflation bank interest subsidy for December, triggering fears over a possible rise in inflation. The index retreated 0.646 or 1.3 per cent to 50.911. SHENZHEN's B index declined 0.96 to 65.69.

TAIPEI reversed an early rebound in further response to news that presidential hopeful Lin Yang-kang's running mate would be the former premier Hau Pei-tsun. The weighted *index lost 22.27 or 0.5 per cent* at 4,608.70, off a 4,661.14 high. Turnover came to T$17.2bn.

Investors were worried about the Lin/Hau link since it could precipitate a formal split in the ruling Nationalist party.

The electronics sector was the heaviest faller, closing 1.5 per cent down, with Acer T$3 cheaper at T$52.50.

SINGAPORE's key share index ended sharply higher, although analysts noted that volumes were low and institutional investors largely absent.

The Straits Times Industrial index climbed 22.13 to 2,089.29, off a day's peak of 2,095.96.

KUALA LUMPUR ended in negative territory after a positive start as late profit-taking set in, and a 4.3 per cent fall in Tenaga also pulled the market back. The composite index lost 1.43 points to 894.04 as Tenaga dropped 40 cents to M$8.85 after posting lower than expected results.

SEOUL was weak in thin volume which left the composite *index 3.09 lower at 933.95.*

Daewoo Group stocks were hard hit just before the end of the trading day on news that Kim Woo-choong, the chairman, had been named in former president Roh Tae-woo's arrest warrant as having given him bribes. Daewoo Telecom ended down Won600 at Won11,100 and Daewoo Securities was off Won1,100 at Won21,400.

SYDNEY retreated in light trade as investor caution over an industrial dispute and disappointment over National Australia Bank results reversed early gains. The All Ordinaries index shed 4.2 to 2,106.10 in A$487.3m turnover.

CRA made 34 cents to A$20.96 after a steep decline on Wednesday on news of a nationwide coal and dockers' strike, and with the promise of even more sweeping industrial action aimed at CRA and its associated companies.

The banking index fell 25.60 to 3,051.80 in spite of higher *than expected earnings results* from National Australia Bank and Westpac.

Economic concern is driving Manila down

The Philippine stock market, until recsntly the darling of emerging market portfolio managers, is being spurned by foreign investors as doubts grow over the economy's performance, *writes Edward Luce in Monila.*

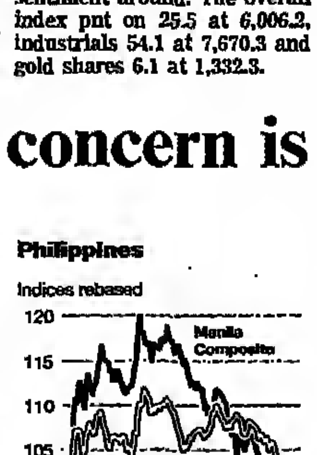
For the sixth consecutive session yesterday, the composite index fell back, closing 1 per cent lower at 2,291. The market bas given up 23 per cent of its value since this year's peak of 2,958 in July.

"We are experiencing the sort of slide that occurred after the Mexican crisis in the first quarter of the year," says Mr Noel Reyes, vice-president of researcb at Dbarmala Securities in Manila. "The most hard hit stocks are those whicb would normally he popular with foreign investors."

Negative sentiment, driven by fears of bigber inflation, wbich toucbed 11 per cent last montb, and rising interest rates, wbich are expected to reacb 13 per cent by December, bas led to the withdrawal of at least one scheduled IPO this week.

Alsons Cement, a Philippine company scbeduled to list on December 6 issuing around 3bn

Philippines



Source: FT Extel

pesos ($110m) of stock, withdrew its offering yesterday citing negative market conditions. A company spokesman said that it would look at the market again in the first quarter of 1996.

Mr Roberto De Ocampo, minister for finance, said yesterday that tbe government was reviewing its plans to complete the privatisation of the Philippine National Bank (PNB) in December in light of the PSE's performance. PNB, the country's largest bank in asset terms, and whicb is majority owned by the government, is due to issue 14 per cent of its shares next month reducing the state's share to 43 per cent. Doubts have been raised about the company's planned international roadshow at tha end of November.

Mr De Ocampo, wbo earlier this year resolved in PNB's favour a long-running dispute between PNB and the government over a 26bn-peso debt the bank claimed from the government, did not bowever rule oot tbe issue going ahead as scheduled. Tbe finance minister blamed the market's slide on the possibility of a rise in US interest rates.

Brokers also raised doubts about the planned 3bn-peso issue of DM Consunji, a Philippine construction company. The property index, which was trading at 128 in July based on an October 1994 rating of 100, has been among the worst hit class of stocks. The index dropped to 101 yesterday. Analysts say that the most highly leveraged property companies, sucb as Megaworld and Filinvest, are expected to be worst affected by rising Philippine interest rates.

"The market is basically correcting its massive overshoot in December 1993 when the composite index jumped hy 50 per cent in one month alone," commsnts Mr Ian Roberts, director of investments st Sunlife Assurance (Canada), in Manila. "To a certain sxtent most of south-east Asia's markets are being affected, but Manila is being hit worst because it is the most overvalued," he adds. The PSE is trading at a price/earnings ratio of about 17.

Brokers this week also downgraded their 1995 corporats earnings forecasts from around 30 per cent to 20 per cent. Citing poor third-quarter earnings from leading blue chips such as San Miguel, the brewery company, and the Philippine Long Distance Telephone group, analysts say that they are focusing on the second quarter of 1996 for a revival in corporate profits.

"We expect the cyclical stocks such as Petron [the privatised oil company] and Meralco [the Manila electricity monopoly] to be badly affected by the economic downturn," says Mr Reyes. "We are predicting negative earnings growth for Petron this year."

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	WEDNESDAY NOVEMBER 15 1995								TUESDAY NOVEMBER 14 1995					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (82)	179.98	-1.5	171.28	114.95	131.23	162.75	-0.7	3.99	182.66	173.18	117.24	134.33	163.87	161.01	157.95	187.40
Austria (27)	169.86	0.3	161.65	108.48	123.84	123.78	-0.5	1.35	169.33	160.52	108.68	124.52	124.46	198.28	167.48	178.27
Belgium (35)	198.43	1.8	188.84	126.73	144.67	141.08	0.8	3.71	194.94	184.80	125.12	143.35	139.90	201.12	184.78	167.33
Brazil (28)	124.63	0.1	118.61	79.59	90.87	220.75	0.0	1.91	124.56	118.08	79.95	91.60	220.75	188.35	86.06	196.20
Canada (100)	143.79	-0.5	136.81	91.61	104.81	141.06	-0.4	2.61	144.47	136.96	92.73	106.24	141.67	150.83	121.81	130.98
Denmark (33)	279.92	-0.1	266.39	178.77	204.08	207.15	-1.0	1.56	280.18	265.60	179.83	206.04	209.23	295.99	236.81	249.34
Finland (25)	221.26	0.9	210.56	141.31	161.31	164.92	0.2	1.64	219.21	207.80	140.70	161.20	194.60	276.11	171.13	192.44
France (100)	181.40	2.4	172.63	115.85	132.26	137.82	1.6	3.18	177.22	167.99	113.74	130.32	135.67	191.17	157.79	170.76
Germany (58)	160.30	0.3	152.56	102.38	116.87	116.87	-0.5	2.04	159.75	151.44	102.54	117.48	117.48	167.74	135.39	143.98
Hong Kong (55)	360.02	0.9	342.72	230.02	262.90	358.01	-0.1	3.68	356.91	338.36	229.10	262.48	358.55	398.38	277.40	387.89
Ireland (16)	250.86	1.9	238.74	160.21	182.90	220.26	1.0	3.46	246.55	233.62	158.53	182.79	218.08	250.85	195.51	200.40
Italy (58)	69.52	0.9	66.17	44.40	50.69	82.63	0.7	1.84	68.93	65.36	44.25	50.69	82.06	82.71	65.45	77.99
Japan (483)	141.11	-0.2	134.29	90.12	102.89	90.12	-0.7	0.85	141.37	134.02	90.74	103.97	90.74	164.82	126.95	158.28
Malaysia (106)	430.44	1.1	409.65	274.81	313.84	419.83	1.1	1.97	425.77	403.62	273.28	313.11	415.44	561.98	386.15	536.00
Mexico (18)	824.25	4.1	784.42	526.41	600.95	7119.46	[illegible]	1.09	791.99	750.77	508.33	582.41	7057.23	1233.80	647.83	1504.26
Netherland (19)	258.16	0.8	245.68	164.87	188.22	185.02	-0.2	3.53	256.18	242.83	164.42	188.38	185.37	263.89	207.60	215.21
New Zealand (14)	79.73	-0.9	75.88	50.92	58.13	85.36	-0.5	4.43	80.46	76.27	51.64	59.16	85.80	86.89	66.58	74.30
Norway (33)	226.01	0.3	215.09	144.34	164.78	169.99	-0.8	2.21	225.27	213.55	144.59	165.66	170.33	230.01	192.27	206.14
Singapore (44)	363.57	0.5	346.00	232.20	265.08	236.44	0.3	1.72	361.84	343.11	232.21	266.17	235.63	414.26	313.64	393.82
South Africa (45)	372.81	-0.8	354.79	238.10	271.81	296.55	-0.7	3.07	375.02	355.51	240.71	275.78	298.46	376.43	281.06	335.98
Spain (36)	151.61	0.6	144.29	96.83	110.54	136.55	-0.1	4.10	150.43	142.60	96.55	110.62	136.75	160.31	124.10	143.37
Sweden (47)	306.96	1.4	292.12	196.04	223.80	300.53	0.6	2.00	302.71	286.96	194.29	222.61	298.68	320.43	225.80	241.20
Switzerland (41)	225.26	0.5	214.37	143.86	164.23	158.43	-0.2	1.66	224.82	213.12	144.30	165.33	158.64	226.57	158.38	163.53
Thailand (46)	148.08	-1.2	140.90	94.56	107.95	144.35	-1.3	2.82	149.89	142.09	96.21	110.23	146.31	194.55	130.16	178.61
United Kingdom (206)	224.29	1.3	213.45	143.25	163.53	213.45	0.7	4.07	223.71	212.07	143.59	164.52	212.07	227.31	187.07	201.55
USA (634)	243.29	1.8	231.53	155.38	177.36	243.29	1.8	2.45	241.36	228.80	154.92	177.49	241.36	243.29	182.23	190.17
Americas (650)	221.26	0.6	210.57	141.31	161.32	165.96	0.8	2.43	219.58	208.15	140.93	161.47	164.58	221.26	170.56	177.77
Europe (737)	195.42	0.7	185.97	124.80	142.48	162.67	0.4	3.10	194.04	183.94	124.54	142.69	163.04	199.02	169.04	172.85
Nordic (138)	277.67	1.0	264.25	177.34	202.45	232.68	0.1	1.89	275.04	260.73	176.53	202.25	232.37	295.02	215.79	229.45
Pacific Basin (932)	150.86	-0.2	143.59	96.36	110.00	100.02	-0.6	1.31	151.15	143.32	97.04	111.18	100.59	171.87	145.95	165.03
Euro-Pacific (1669)	169.35	0.2	161.16	108.15	123.47	124.03	-0.1	2.17	168.95	160.16	108.44	124.24	124.17	178.53	154.73	168.84
North America (804)	237.14	0.5	225.68	151.45	172.89	236.45	0.8	2.34	233.57	223.12	151.07	173.09	234.68	237.14	178.56	186.78
Europe Ex. UK (531)	175.54	1.0	167.05	112.11	127.98	136.81	0.2	2.55	173.65	164.81	111.59	127.85	136.43	179.48	146.45	154.60
Pacific Ex. Japan (349)	244.36	-0.3	232.56	156.07	178.17	215.57	-0.1	3.40	245.07	232.32	157.30	180.22	216.10	268.72	211.18	239.57
World Ex. US (1760)	170.24	0.2	162.01	108.72	124.12	127.60	-0.1	2.01	169.87	161.03	109.03	124.92	127.75	178.73	158.42	170.67
World Ex. UK (2058)	189.62	0.5	180.45	121.10	138.25	155.72	0.2	2.11	188.74	178.92	121.14	138.79	155.49	191.32	163.46	173.69
World Ex. Japan (1781)	221.31	0.7	210.61	141.34	161.35	206.07	0.5	2.76	219.86	208.44	141.13	161.69	204.97	221.43	176.95	188.51
The World Index (2264)	192.85	0.5	183.34	123.04	140.46	160.75	0.2	2.30	191.79	181.81	123.10	141.04	160.37	194.25	165.92	176.10

Latest prices were unavailable for this edition. Market closed 15/11/95: Brazil.